

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

Case 13-E-0030 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service.

Case 13-G-0031 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service.

Case 13-S-0032 - 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.

STAFF INITIAL BRIEF

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Attachment 1 (Electric)
Attachment 2 (Gas)
Attachment 3 (Steam)

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I. Overview

On January 25, 2013 Consolidated Edison Company of New York (Con Edison, CE, or the Company) filed for a change in rates for the calendar year 2014, or the Rate Year, for each of its electric, gas and steam businesses. After the filing of testimony by Staff of the Department of Public Service (Staff) and numerous other parties on May 31, 2013, Con Edison filed its update and rebuttal testimony on June 23, 2013. As of the Company's June 23, 2013 filing, the Company requested revenue requirement increases of \$424.992 million, \$25.878 million and \$10.544 million for its electric, gas and steam businesses respectively. In contrast, Staff recommends revenue requirement decreases of \$146.359 million, \$95.255 million and \$10.156 million for the Company's electric, gas and steam businesses, respectively. It is important to note that Staff started with, and adjusted, the Company's update and rebuttal cases in determining these decreases. Staff's revenue requirements are attached to this brief as Attachment 1, 2 and 3.

The major causes of the difference between Con Edison's requested revenue requirements and Staff's recommended revenue requirements are the changes to rate of return, operations and maintenance (O&M) expenses and depreciation expense. With regard to rate of return, the Company requested an overall rate of return of 7.6%, with a return on equity of 10.1%. In comparison, Staff recommends that the Commission adopt an overall authorized rate of return of 6.7%, with a return on equity of 8.7%. With regard to depreciation expense, the difference between the Company's proposed level and Staff's proposed level is \$104.7 million, \$19.7 million and \$3.1 million for electric, gas and steam, respectively. As can be seen

throughout this brief, Staff's recommendations for various O&M expenses, infrastructure investment, consumer and other policy matters will help to ensure that Con Edison provides safe and adequate service at just and reasonable rates during the Rate Year.

II. Sales Revenue

a. Electric

The Company's forecast of electric deliveries for the rate year is 57,521 Gigawatt hours (GWhs). The forecast was developed using econometric models, net of the impact of energy efficiency programs and various adjustment not captured by the forecasting models.

Staff recommends an adjustment that would result in an increase of 740 GWhs to the Company's electric delivery forecast. This adjustment includes recommendations that Con Edison's forecast be based on the normal weather on a 10-year average of historical data and a 60 GWhs reduction to the Company's forecast for DSM savings. Staff developed its own more accurate econometric model specifications. Staff's forecast also reflects Staff's proposed changes for weather normalization and DSM adjustment.

In rebuttal, Con Edison accepts the use of normal weather based on 10-year averages, but disagrees with our other recommended changes to the forecast (CE Electric Forecasting R/U, pp. 8-9). The Company's updated forecast remains 600 GWhs below Staff's forecast.

i. Forecast for DSM Savings

Con Edison projects the DSM savings to be 602 GWhs through the end of rate year 2014. This projection, based on the program targets, includes achievements from energy efficiency (EE) programs administered by both Con Edison and

NYSERDA. We propose a 10% adjustment, or 60 MWhs, to the Company's forecasted DSM savings. Our recommendation is based on the Company's recent actual EE performance, which is below Con Edison's forecast by 12% as of December 2012 (Exh. 286, p. 73). More recently available data, updated in March 2013, shows that the actual savings were 73% of the targets for the EE programs administered by Con Edison and only 42% of the targets for those by administered NYSERDA (Exh. 295).

In rebuttal, the Company argues it was "not aware of any factors that would support a decrease from the current DSM forecast" (CE Electric Forecasting R/U, p. 38). The Company further argues that additional DSM savings could come from "the possible authorization of incremental energy efficiency programs and initiatives" (CE Electric Forecasting R/U, p. 39). Con Edison's energy efficiency target-guided DSM forecasts have been proved to be overstated in the past rate cases as well as by the recent data (Exh. 286, pp. 70-80). These forecasts should be adjusted to reflect the latest EE performance data when available. Our recommended reduction to the Company's DSM forecast is supported the recent data and trends of the EE performance in the record, which the Company did not dispute. A 10% adjustment is, in fact, conservative when compared with the 12% forecasting error through December 2012. Further, we are not aware of any Commission plans to authorize new or to accelerate existing EE programs in the near future. Our adjustment to the Company's DSM forecast is reasonable and justified.

ii. Models and Forecast for Electric Deliveries

Con Edison's forecast should be rejected for several reasons. Recent data shows that the Company's forecast is below the weather normalized actual deliveries by 560 GWhs on an annualized basis (Liu Direct, pp. 18-19). The Company's

forecast of no-growth in deliveries for the next two years is too pessimistic when compared with the annual growth rates over historical period and the faster growth of the economy expected in the Company's service territory (Liu, pp. 19-20; Exh. 291, p. 3). Con Edison's delivery forecast is also below the underlying energy growth forecast in the Company's peak load forecast (Liu Direct, pp. 21-22). On the other hand, Staff's forecast is more reasonable and consistent with the historical averages and projected economic growth (Exh. 291, p. 3).

We testified that the Company's understated forecast is the result of its unreliable forecasting models. The Company's models are not specified properly because they either exclude an intercept term or include a linear time trend variable that may be irrelevant (Liu Direct, pp. 24-25). Excluding the intercept unreasonably forces the estimated equations to go through the origin (Liu Direct, pp. 27-28) and, obviously, unreasonably forces changes to the estimated impact of the other variables. Including the linear time trend leaves only the remaining year-to-year changes in deliveries to be explained by changes in economic and weather variables (Liu Direct, pp. 25-26). Sales levels that should be attributed to the economy or weather may be unreasonably explained by the time trend variable. In either case, the estimated coefficients of the models are either biased or inefficient as a result of the Company's decision to remove intercepts or include time trends (Liu Direct, pp. 26-27).

In its update, the Company introduced a dummy variable to the forecasting models for SC 9 deliveries and sendout. We have two concerns with the Company's selective use of a dummy variable for only two models and believes that these concerns demonstrate the unreliability of the Company's models. The first concern is that the Company has not made clear why,

without the dummy variable, the Company's forecasts for SC 9 and sendout "would have been unusually low" based on the historical pattern of the sales growth (Tr. 16-17). The Company's explanation that the forecast is affected by the temporary negative impact of Super Storm Sandy is extremely suspect. Con Edison claims that the use of the dummy variable is "necessary" to prevent the "unusually low" results (CE Electric Forecasting R/U, pp. 4-5). Where a forecasting model, such as the Company's, is so heavily influenced by a temporary impact, it has not been developed correctly and is therefore unreliable. This unreliability is revealed by Con Edison's admission that the forecasts for SC 9 and sendout would have been "unusually low" when compared with the historical pattern of sales growth. The introduction of the dummy variable did not remedy the flaw, rather the discerned need to add a dummy variable revealed the model's unreliability. The Company's forecast is understated and too pessimistic when considering the historical sales trend and the economic forecast (Liu Direct, p. 19-20).

The other concern with the dummy variable is that, if the impacts of Sandy were so significant that it was necessary to add the dummy to SC 9 and sendout, why is it not included in the Company's forecasting models for SCs 1, 2, 8, 12. The fact is that the Super Storm Sandy significantly affected customers in all electric service classes (Tr. 407-408). The storm did not selectively target only one service class, and it most certainly did not discriminate in the neighborhoods that it did affect by selectively choosing only buildings in that area that belonged to one service class. The Company claims that the dummy variable is not "statistically significant" at a "standard five percent level" in the forecasting models for other service classes (Tr. 405). However, the Company has applied a double standard in deciding when to use or reject such a dummy variable

because the Company has included similar variables in those other models even though they are not statistically significant at the five percent level (Exh. 55; Exh. 455). Accordingly, the Company's model is again shown to be selective, influenced by a temporary event and, hence, unreliable.

On the other hand, Staff's models do not require fixing via the inclusion of such a dummy variable. Our forecast is much more reasonable than the Company's forecast when compared to historical growth rates and the economic forecasts. Therefore, Staff's recommended forecast electric deliveries for the rate year should be accepted by the Commission.

Con Edison provided a sales forecast pricing model (Exh. 239) which Staff reviewed and relied on to priceout its sales forecast. We recommend a sales forecast that is higher than the level of sales reflected in the Company's forecast by 740 GWh. Using the Company's pricing model, we estimated that the Company's rate year revenues forecast should be increased by \$50.03 million.

iii. Sales Forecast Priceout

In the Company's update/rebuttal testimony, Con Edison disagreed with Staff's sales priceout (CE FP U/R, p. 40). The pricing files that were provided to us for use in pricing the volume adjustments contained allocation factors based on data through June 2012. The Company updated those allocation factors in its update/rebuttal testimony using data through December 2012. The updated allocation factors resulted in an increase of about \$4.6 million to Staff's proposed adjustment. Also, there was an error in the SC 1 volume used in Staff's pricing file. Using the correct SC 1 volume resulted in a decrease of about \$7.7 million to our recommended adjustment.

The net of these two adjustments to Staff's sales priceout result in a reduction of \$3.1 million to our original

recommended increase of \$50.03 million to the Company's rate year revenue forecast. Therefore, we recommend the Company's rate year revenue forecast be increased by \$46.93 million and this change is reflected in Staff's corrected testimony (Staff ERP Direct, p. 24).

b. Gas

Con Edison and Staff each developed sales forecast models. While each model produced similar results when using ten year normalized weather data, there was a divergence in the number of bills forecasted in the Rate Year that amounted to a difference of approximately \$6.8 million in revenue. For the reasons discussed below, Staff's forecast of number of bills for the Rate Year should be adopted.

Con Edison's initial sales forecast for the Rate Year was based upon 30-year normal weather utilizing a model consisting of what it described as "key factors" that the Company expected would impact future sales (CE Gas Forecasting, Direct, p. 7). Its initial forecast resulted in projected revenues at current rates for the Rate Year of \$926,684,813 (Exh. 619). Staff's volume forecast for SC 2 and SC 3 was initially based on the Company's 30-year weather normalized volume forecast adjusted for the proportional changes in annual bills included in the Company's filing. For SC 1 and SC 13 the annual delivery volumes were projected by multiplying Staff's forecasted total annual bills by their respective average usage per bill (Staff Gas Sales, Direct, Corrected, pp. 8-9). Staff's initial forecast resulted in projected revenues at current rates for the Rate Year of \$935,909,675 (Exh. 597). However, during cross examination, Staff was asked about the use of ten year normalized weather (Tr., p. 461). Upon further consideration, we now agree that the use of ten year normalized weather is more appropriate, as discussed in Staff witness Anping Liu's

recommendation on the electric sales forecast. Using ten year normalized weather in Staff's sales forecast results in projected Rate Year revenues at current rates of \$920,595,493.

In rebuttal, the Company updated its gas sales forecast to reflect ten year normalized weather and supplemented the test year to account for additional data which resulted in projected revenues at current rates for the Rate Year of \$913,867,533 (Exh. 562). The Company also argued that Staff's model incorrectly assumed that the past provides an accurate forecast for future bill forecasting and failed to consider all available data (CE Gas Forecasting, R/U, pp. 23-24).

Con Edison's arguments are misplaced. It is clear that Staff's model, which includes linear regression analysis to develop the number of customers in the Rate Year, yields a more accurate sales forecast based on the number of bills in the Rate Year. Con Edison's approach assumes that "key factors," upon which the Company makes subjective adjustments (CE Gas Forecast, Direct, pp. 10 and 13) to the historic data accounts for all significant changes (CE Gas Forecasting, R/U, pp. 25-26). Conversely, Staff's approach objectively analyzes future sales based on historic trends of actual data (Staff Gas Sales, Direct, Corrected, pp. 7-8). By employing a model that incorporates linear regression analysis to forecast the number of customers in the Rate Year (Staff Gas Sales, Direct, Corrected, p. 7), Staff utilized the most recent historic trend in the underlying data, while at the same time achieving the best R-squared values (Tr. 455). We opted for a linear regression approach because it included the factors that could most influence the sales forecast to the extent those factors impacted the historic data. Factors not captured in the historic data were analyzed separately. For example, oil-to-gas conversion customers were expected to grow at a much faster rate

than the historic data indicated, due to specific changes-in-law (Staff Gas Sales, Direct, Corrected, p. 10). Therefore, Staff removed those customers from the historic data prior to running our regression analysis and added them back consistent with the Company's discrete forecasted number of oil-to-gas customers (Id., p. 11; Exh. 595, pp. 18-19 and 22-37).

Staff compared its forecast of 12-month rolling average number of bills to the 12-month rolling average number of actual bills from January through June 2013 and determined that Staff's 12-month rolling average was very close to the actual data (Tr., pp. 462-463). During cross examination, the Company also provided a 30-day bill comparison of its forecasted number of bills versus actual number of bills (Exh. 795). Based on data provided by the Company (Exh. 794), Staff compared its forecast to the Company's forecast, and determined that while Staff's forecast was very close to the Company's, in some instances it was closer to the actual data. For example, the results for SC 31 from January 2013 through June 2013 were as follows:

SC31			
	STAFF FORECAST	ROLLING ACTUAL	COMPANY FORECAST
Jan-13	16,073	16,057	16,031
Feb-13	16,119	16,110	16,076
Mar-13	16,166	16,193	16,100
Apr-13	16,213	16,267	16,132

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May-13	16,260	16,323	16,167
Jun-13	16,307	16,384	16,207

Similarly, the results for SC 1 (Residential Non-Heat) were as follows:

SC1			
	STAFF FORECAST	ROLLING ACTUAL	COMPANY FORECAST
Jan-13	674,120	673,230	673,450
Feb-13	673,873	673,932	673,755
Mar-13	673,627	673,426	673,233
Apr-13	673,381	673,592	672,929
May-13	673,134	673,629	672,692
Jun-13	672,888	674,205	672,451

Accordingly, Staff's approach to forecasting the number of bills in the Rate Year is more accurate and should be adopted by the Commission.

c. Revenue Decoupling Mechanisms

i. Inclusion of Excelsior Jobs and Recharge NY in the RDM

The Company suggests that because the Company has no control over how large the Recharge New York (RNY) and the Excelsior Jobs (EJ) programs become, or who gets RNY or EJ allocations, the revenues associated with these programs should be included in the respective RDMs (Gas Forecasting Panel Direct, p. 32 and Electric Forecasting Panel Direct, pp. 36-38).

We recommend the Commission reject this proposal because adopting the Company's proposal now would not only be confusing to program participants, but may subject customers to unwanted/unanticipated bill volatility due to the fluctuating nature of RDMs. While the Company does not have direct control over the programs, it does have the ability to promote these programs to potential customers who may be looking to relocate to New York State or expand their current business, thus affecting the size of the programs and who participates. If the revenues associated with these programs are included in the Company's RDMs, the Company would have no financial incentive to promote these programs. Staff explained that revenues associated with EJ and RNY programs at other utilities are excluded from RDM calculations per the Commission Orders implementing those programs and that the Commission recently ruled that RNY revenues should not be included in Con Edison's RDM (Staff Policy Panel Direct, pp. 75-78).

NYPA also took the position that RNY revenues should not be included in the RDM (Ronald Liberty Direct, pp. 23-25). The Empire State Development Authority (Statement in Lieu of Testimony, pp. 2-3) did as well.

In rebuttal, the Company states that it does not believe that its promotion of EJ or RNY would have a meaningful

impact on participation levels and therefore the underlying program should not be equated with the types of economic development programs that the Commission's RDM policy was intended to address (RDM Panel Rebuttal, pp. 11-12).

During cross examination, the Company stated that when it deals with prospective customers that are considering relocating to the service territory, it provides information regarding Recharge New York and then directs the customer to the New York Power Authority for further information and application information (Tr. 2011). The Company further admits that it does have some impact on whether customers ultimately participate in the program (Tr. 2018). Excluding RNY and EJ revenues from the RDM will maintain a financial incentive to the Company to promote these programs and help to achieve the intent of the legislation. For these reasons, Staff's proposal should be adopted.

ii. Proposed Changes to the RDM for Electric and Gas

Staff proposes that if the Commission does not issue a generic policy in Case 13-M-0061, Customer Outage Credit Policies and Other Consumer Protection Policies Relating to Prolonged Electric or Natural Gas Service Outages, before the start of the rate year in these proceedings, the Commission should adopt its preferred lost revenue treatment for Con Edison in this proceeding (Staff Policy Panel Direct, pp. 78-79). Given the fact that Con Edison ratepayers were among the hardest hit by Superstorm Sandy, we think it is important not to delay implementation for Con Edison customers.

d. Steam

The Con Edison Steam Forecasting Panel's testimony developed its rate year ending December 2014, December 2015 and December 2016 ("Rate Years" or "RY1", "RY2" and "RY3", respectively) forecasts starting from actual steam sales in the

Historic Year, the twelve months ended June 30, 2012. The Company projected an increase in sales of 2,441 MMLbs or 12.6 percent between the actual sales in the historic year and the forecasted sales for RY1. The Historic Year sales, on a weather-normalized basis, are 0.8 percent higher than the forecast for RY1 sales (CE Steam Sales Forecasting Direct, p. 3). The Con Edison Steam Sales Forecasting Panel's direct testimony forecasted sales level for RY1 was 21,887 MMLbs (CE Steam Sales Forecasting, Direct, p. 13).

Staff witness Barney took issue with the 30-year average based weather normalization methodology used by the Company, and recommends instead a 10 year average (Staff Barney Direct, pp. 3-4). Staff noted that on page 14 of its June 17, 2011 Order in Case 10-E-0362, the Commission states "We affirm here our preference for use of 10-year weather averages in forecasting delivery volumes. We agree that a 30-year method yields greater stability, but it does so at the expense of giving consideration to capturing trends caused by climate change."

The Commission also stated that "The use of a shorter historical period enables us to better capture recent weather trends, which is important as climate change continues to impact our weather patterns." Staff Witness Barney indicated that the reasons why Staff is recommending the use of a 10-year weather normalization were explained in detail in Staff witness Anping Liu's direct testimony (Staff Barney, Direct, p. 5). In its rebuttal testimony, the Con Edison Steam Sales Forecasting Panel agreed to change the basis on which it calculated normal weather. The Company accordingly based its updated rebuttal forecast on the average weather condition over the ten calendar years ended 2012 (CE Steam Forecasting R/U, p. 3). The Company notes that replacing the 30 year ended 2011 normal weather

normalization with the ten year ended 2012 normal weather normalization decreases the RY1 updated forecast by 53 MMLbs (CE Steam Forecasting R/U, p. 6).

Staff witness Barney also disagreed with the manner in which the Con Edison Steam Sales Forecasting Panel implemented the steam price elasticity adjustment factor in its revenue price out calculations (Staff Barney Direct, pp. 6-7). Staff witness Barney testified that the Steam Forecasting Panel's straight line approximation to the curvilinear demand curve estimated by the Company's consultant resulted in an overstatement of the steam price elasticity adjustment. Mr. Barney noted that a curvilinear approximation better reflects the constant elasticity demand curves estimated by the Company's consultant contained in confidential Exhibit 746. Staff witness Barney estimated that a curvilinear implementation of the price elasticity adjustment would increase the steam sales forecast by approximately 15 MMLbs (Staff Barney Direct, p. 7). The Company is not contesting this assertion in Staff witness Barney's testimony.

Exhibit 800, Discovery Responses from Fred Barney, shows that that the steam sales forecast for RY1 ending December 2014, based upon Staff witness Barney's recommended price elasticity implementation methodology and a 10 year weather normal ending December 2012, is 21,849 MMLbs.

Exhibit 800 also indicates that if appropriate, Staff would adjust its forecast if it had more information related to a soon to be lost customer. The Company Steam Forecasting Panel's updated forecast of sales for RY1 (CE Steam Forecasting R/U, p. 13), inclusive of a change to a 10 year weather normalization and updated information on soon to be lost customers and a lower level of new business, is 21,674 MMLbs (Ex. 655). Adding 16 MMLbs associated with Staff's price

elasticity implementation adjustment to the Company Steam Forecasting Panel's updated forecast of 21,674 MMLbs produces Staff's steam sales forecast of 21,690 MMLbs for RY1 ending December 2014.

i. Weather Normalization Clause

The Company recommends a Weather Normalization Clause (WNC) for the Steam business (Steam Sales Forecasting Panel Direct, pp. 22-27 and Muccilo Steam Direct, pp. 27-31). The Company claims that forecasting weather is beyond the ability of the Company, Staff or any other party and therefore steam customers and the Company are subject to increases or decreases in costs and revenues, respectively, for circumstances outside both the Company's and customers' control. It also argues that a WNC exists for gas and electric so, therefore, it should exist for steam (Muccilo Steam Direct, p. 27-31; Steam Forecasting Panel Direct, pp. 22-27).

We recommend that the Company's proposal should be rejected by the Commission. We note that, contrary to the Company's assertion, the Commission authorized the use of a WNC for the gas business, but it has not done so for electric service. The electric business has a Revenue Decoupling Mechanism (RDM) to provide the Company lost revenues due to energy efficiency programs, which happens to provide for lost revenues due to weather variations; however, such an outcome is an unintended side effect of the RDM mechanism. Providing for variations in revenues due to a bad economy, or any other factor that impacts sales are also unintended side effects of the RDM (Staff Policy Panel Direct, pp. 60-61). In addition, the Company made no attempt in testimony to demonstrate a financial need for a Steam WNC (Staff Policy Panel Direct, p. 62). In further support of our recommendation, we explained that the Commission recently adopted a demand and energy rate structure

for the largest steam customers, which has increased the Company's revenue certainty, and that to further increase revenue certainty, the Commission could simply further modify demand rates and their applicability (Staff Policy Panel Direct, pp. 63-64). In addition, Staff witness Barney proposed changes to the steam sales forecast that will make it more accurate by basing it on ten year weather instead of the thirty year weather data used by the Company, with which the Company agreed (Steam Forecasting Panel Rebuttal, p. 3).

New York Energy Consumers Council (Bomke Direct, pp. 14-17), City New York (Gorman Direct, pp. 34-39) and Consumer Power Advocates (Dowling Direct, pp. 34-36), all opposed the Company's proposed weather normalization clause mechanism.

In rebuttal, the Company states that it is not proposing a WNC to address a financial need but instead is proposing it to protect both customers and the Company from undue variations in revenues as a result of actual weather that varies materially from what is considered to be normal weather on which rates are based (Steam Forecasting Panel Rebuttal, p. 27). The Company claims that changes to the demand rate structure could have impacts that go well beyond mitigating the impact of weather variations. It concludes that the surcharges or credits generated by the WNC should provide greater rate stability for customers (Steam Forecasting Panel Rebuttal, p.32).

The Company's request for a steam weather normalization clause should be rejected by the Commission. The Company admits that a financial need does not exist but instead claims that it is looking to protect customers and the Company from undue variations. Staff finds that reasoning interesting but would note that if the Company's proposal was in place, it would have been able to surcharge customers an additional \$38

million for the 2011-2012 winter period, while crediting customers an estimated \$8 million for the 2010-2011 winter period, benefiting shareholders far more than customers over the two year period (Staff Policy Panel Direct, p. 62-63). Lastly, while the Company comments that changes to demand structure may have other impacts; it does not dispute the claim that it would mitigate the impacts of weather variations.

III. Other Operating Revenues

a. POR Discount Revenues

As part of its retail access program, Con Edison purchases Energy Service Companies (ESCO) accounts receivable. Con Edison discounts the accounts purchased in recognition that some of the accounts will be uncollectible. For revenue requirement purposes the Company accounts for the Purchase of Receivable (POR) Discount as revenue.

Initially, the Company projected rate year electric and gas POR revenues of \$20.853 million and \$3.363 million, respectively. Staff took issue to the Company's forecasts and recommended rate year electric and gas POR revenues of \$30.972 million and \$5.263 million, respectively. The Company rebutted Staff's recommended adjustments. However, subsequent to the evidentiary hearings, the Company informed Staff that upon further review it no longer takes exception to Staff's rate forecasts of rate year electric and gas POR discount revenues. Consequently, Staff's updated revenue requirements reflect rate year revenue forecasts of \$30.061 million and \$5.696 million for electric and gas, respectively.

b. Medicare Part D

In Case 04-M-1693 the Commission authorized true-up accounting for new tax benefits provided by the federal government pursuant to Medicare Part D. Con Edison proposes in

this case to recover the difference between its actual Medicare Part D tax benefits and the benefits that were reflected in rates (CE Electric Accounting Panel Direct, p. 160). Staff took issue with Con Edison's true-up calculations (Staff Accounting Panel p. 47). The Company presented revised Medicare Part D deferral calculations in its update/rebuttal filing. Prior to the evidentiary hearings, the Company further revised the amounts it seeks to recover, as reflected in Exhibit 895. Staff has verified the Company's latest revision (a \$27.7 million dollar shortfall) and recommends that the amounts be accepted. Accordingly, Staff reflects the revised amounts in Staff's updated revenue requirement recommendations.

c. John Street

By letter dated January 10, 2013, Con Edison informed the Director of the Office of Accounting and Finance of its intention to sell its property located on John Street to the Brooklyn Bridge Park Development Corporation (BBPDC). As the BBPDC is a duly constituted authority of the State of New York, Commission approval of the transaction is not required. However, Commission approval of the transaction accounting and disposition of the gain resulting from the sale is required. As Con Edison has proposed to pass back a portion of the gain to customers in its electric rate filing, Staff recommends that the Commission address the transaction accounting and disposition of the gain in this proceeding.

Con Edison proposes to credit a portion (\$4.478 million) of the proceeds related to the gain on the sale of its John Street property (CE Electric Accounting Panel Direct, 157). It offers to allocate the gain between customers and the Company reflecting the relative costs borne by each since 1996 when the property was reclassified to non-utility property (Exh. 309, p. 30).

Staff reviewed and considered the Commission's past practice with respect to the disposition of gains and losses resulting from the sale of property. Staff found that the Commission traditionally follows the principle of benefits follow burden. Fortunately in this instance there is a benefit, a gain on the disposition of the property. Since Staff found that the property was supported by customers for over thirty years before being reclassified to non-utility plant, and for over 10 years after as a direct result of the Company's failure to properly account for costs associated with the property, it recommended customers receive a larger share of the gain than the Company proposed (Staff Accounting Panel, pp.42-43).

Con Edison asserts that Staff's proposal to only provide the Company with a return on the investment subsequent to its reclassification, the only costs not borne by customers, is contrary to the Commission's Uniform System of Accounts (USOA) (CE Electric Accounting Panel R/U, pp. 56-57). In addition, the Company claims shareholders, not customers, bore the risk of any change in the fair market value of property subsequent to the reclassification (CE Electric Accounting Panel R/U, pp. 57-58). Finally, the Company contends Staff's proposal fails to acknowledge that shareholders have borne the property tax costs on the property since 2008 (CE Electric Accounting Panel R/U, pp. 56-57).

Staff's recommendation is not contrary to the USOA. The issue in this proceeding is the disposition of a gain resulting from the sale of property. The Commission's USOA does not prescribe the disposition of such gains, but rather such disposition is solely at the discretion of the Commission. This is precisely why a petition or notice of such transactions is required.

Staff finds great irony in Con Edison's USOA criticism of Staff's proposal, since the Company's failure to comply with the Commission's USOA has resulted in demonstrated customer harm. Con Edison's inappropriate accounting lead to the Company charging customers for various operating and maintenance (O&M) expenses and property taxes associated with the property after it was reclassified to non-utility property (CE Electric Accounting Panel R/U, p. 55). Customers inappropriately bore over \$1.1 million of property taxes and O&M expenses as a direct result of the Company's accounting indiscretions. The USOA requires such costs to be accounted for below the line - the responsibility of shareholders. In light of the Company's complete failure to follow basic USOA accounting procedures, Staff's recommendation provides a more equitable allocation of the proceeds as customers assumed the burden of supporting the property to a much greater extent, both before and after the reclassification than the Company's proposal.

Con Edison's argument that shareholders, not customers, bore the risk of any change in the fair market value of property subsequent to the reclassification is misplaced. In theory, shareholders should have been exposed to such risk. However, the risk by default is limited to the book value of the property when transferred to non-utility property, or \$554,000 (Staff Accounting Panel, p. 44).

Customers were exposed to a much larger risk resulting from the Company's inappropriate accounting methods. Before any consideration of the time value of money, it is an uncontested fact that customers bore over \$1.1 million in costs as a result of the Company's inappropriate accounting (Exh.309). The property taxes and O&M costs embedded in customer rates were more than twice the property's book value of \$554,000. Accordingly, since customers fully supported the property in

rates as property held for future use for over 30 years, and inappropriately continued to bear the greater majority of costs and risks associated with the property following the reclassification, customers should receive a greater share of the gain. Benefits should follow burdens.

Staff's recommendation did inadvertently fail to provide shareholders with the costs of property taxes they bore on the property since 2008. Therefore, Staff has revised its calculation to include those costs as part of its recommendation. Staff recommends the Company be allowed to only retain the carrying costs, inclusive of interest, on the property since 1996, as well as the property taxes since 2008, and that the remainder of the sale proceeds should be passed back to customers (Exh. 310).

d. Spent Nuclear Fuel

Con Edison included a request to recover over three years of Spent Nuclear Fuel (SNF) litigation costs totaling \$10.233 million (Staff Accounting Panel, p. 51). The basis for the request is a recommendation Staff made in prefiled testimony in the Company's last electric rate case (Case 09-E-0428) (Staff Accounting Panel, p. 51).

Staff recommends that the Commission reject the Company's request. Case 09-E-0428 was resolved by a Commission adopted Joint Proposal (JP) that included a comprehensive three-year rate plan (Staff Accounting Panel, p.51). The JP did not provide for the deferral of SNF litigation costs (Case 09-E-0428, *Consolidated Edison Company of New York, Inc. Electric Rates, Order Establishing Three-Year Electric Rate Plan* (issued March 26, 2010), Joint Proposal)). As such, Staff finds that the Company is seeking to recover costs it had no Commission authority to defer in the first instance.

Con Edison claims that there is no basis for Staff to interpret the absence of a deferral provision in the JP as an indication that the Company waived its right to seek recovery of these litigation costs (CE Accounting Panel R/U, pp. 59-60). However, the Company's reliance on a proposal found in Staff's direct testimony from its prior electric rate proceeding, that ultimately was not a provision of the Rate Plan, is totally without merit (Staff Accounting Panel, pp. 52 & 53). The 2010 Commission adopted Rate Plan clearly does not authorize the deferral of SNF litigation costs. Consistent with the Commission approved rate plan, the Company did not defer incurred litigation costs on its books (TR. 1597). As such, from an accounting perspective, there is nothing to recover. If the Commission allows the Company's request, the result would be an inappropriate enhancement of the Company's earnings in the rate year since there are no book costs to amortize. The Company's backdoor attempt to recover these historic costs must be rejected.

e. Net Plant Carrying Charges

In Case 09-E-0428 the Commission required a reconciliation of carrying charges on certain plant actual plant additions to amounts included in revenue requirement.

Here, the Company included a proposed refund of \$24.721 million in carrying charges over three-years, or \$8.240 million on annual basis, based on net plant reconciliation activity through June 2012 (Staff Accounting Panel, p. 60). In its preliminary electric update, the Company reduced the refund from \$24.721 million to \$6.660 million based on plant activity through February 2013 (Staff Accounting Panel, p. 60).

Due in large part to the inclusion of carrying charges associated with Transmission and Distribution (T&D) expenditures in rate year 1 that caused the average net plant balances to

exceed the rate year 1 plant-in-services target, Staff recommended that the Company's proposed refund be increased from \$6.660 million to \$48.100 million.

In rebuttal, the Company proposed to increase the refund from \$6.660 million to \$10.434 million based on plant activity through March 2013. During cross-examination, Staff noted the lack of support for the Company's inclusion of carrying charges associated with T&D expenditures in rate year 1 that caused the average net plant balances to exceed the rate year 1 plant-in-services targets (TR. 1775). Subsequent to evidentiary hearings, the Company provided Staff sufficient verifiable evidence to substantiate the inclusion of carrying charges associated with T&D expenditures in rate year 1. Accordingly, Staff is now recommending, a refund of \$16.422 million over three-years, or \$5.474 million annually, based on net plant reconciliation activity through June 2013. Staff provided Con Edison its revised reconciliation calculation and the Company is agreement with Staff's recommendation.

f. 59th Street Gas Conversion

Con Edison seeks to recover approximately \$1.71 million in carrying charges associated with the Company's fuel conversion project at its 59th Street steam production plant. The project was completed and commenced service in July of 2013. The carrying charges represent the return of, and on, the plant addition from its in-service date to its inclusion in steam rate base in this proceeding (CE Steam Accounting Panel R/U, p. 36).

The Commission never authorized the Company to defer any costs associated with the project, prior to inclusion in base rates. Since, there was no basis to provide rate recovery of the unauthorized deferral, Staff recommends denial of the requested recovery from the Company's rate year forecast of other steam operating revenues (Staff Accounting Panel, p.65).

The Company asserts that it is following guidance provided by the Commission in its Order issued February 22, 2012, in Case 09-S-0794. The Order states that the Company should seek to recover the costs associated with the project through traditional base rate recovery in its next steam filing (CE Steam Accounting Panel R/U, p. 36).

Despite its assertion, the Company is actually seeking to recover costs associated with the project prior to traditional base rate recovery. That is, contrary to the February 2013 Order, the Company is seeking to recover carrying charges associated with its investment prior to inclusion in rate base in this proceeding. The Company does not dispute the fact that it does not have Commission authorization to defer any of the costs associated with the project prior to its inclusion in base rates (CE Steam Accounting Panel R/U, p. 37).

In view of the fact that the Company does not have Commission authorization to defer the costs associated with the project before it is included in rate base, the Company must not be allowed to recover any costs associated with its investment, prior to its inclusion in base rates in this proceeding.

g. Property Tax Refunds (Electric and Steam)

The Company Accounting Panel testified during cross examination that Con Edison and the City of New York reached a settlement agreement related property taxes paid on the Company's former electric and/or steam generating plants and its Hudson Avenue property. The agreement resulted in a property tax refund of approximately \$140 million which the Company received on July 25, 2013 (Tr. 1599). The Company indicated that it was in the process of preparing a petition to the Commission giving required notification of the refund (Tr. 1599).

Due to the timing of the refund, it was not reflected in either Staff's Direct or the Company's Rebuttal/Update cases. By operation of law, the Commission must determine the appropriate accounting disposition and related ratemaking treatment of such refunds¹. Such a determination will be made by the Commission in response to the Company's petition which was filed on August 22, 2013 (Case 13-M-0376, Petition of Consolidated Edison Company of New York, Inc. for Approval of Proposed Distribution of a Property Tax Refund). The Commission's decision in the refund proceeding could be made prior to its decision in these rate cases. In which case, Staff recommends that the final disposition be reflected in these rate cases.

Given the fact that the Company has received the refund and more importantly the magnitude of the refund, Staff recommends that the Commission address the refunds in determining the Company's electric and steam revenues requirements in these proceedings. Absent fair ratemaking treatment, electric and steam customers will be denied any of the benefits associated with the refund they are entitled to in the rate year.

The Company's petition of notification of the tax refund includes a proposed disposition of benefits. Staff recommends at a minimum, including the Company's proposed customer share of the refund (net of tax) as an offset to the Company's electric and steam rate bases. Moreover, the Commission should consider the appropriate timing of the pass-back of the benefit to customers.

In light of the revenue decreases Staff is recommending for the Company's electric and steam services,

¹ 16 NYCRR §89.3; PSL §113(2).

Staff recommends that the customers' share of the tax refund be preserved as a deferred credit and used to mitigate any future electric and steam rate increases. Based on the Company's proposed allocation of the benefit reflected in its petition Staff reflects deferred credits, on a net of tax basis, of \$55.250 million and \$22.750 million in Company's rate year electric and steam rate bases, respectively.

IV. Expenses and Credits

a. Labor Expenses / Staffing

i. Employee Level

In its initial filing, Con Edison relies on the historic test year average number of employees (13,716) to forecast its rate year labor expense (CE Electric Accounting Panel Direct, p. 106). In addition, the Company requested 86 incremental employees through requested program changes to arrive at a total rate year employee headcount of 13,802 (Tr. 1570). Staff took issue with the Company's use of the historic year headcount in consideration of the observed multi-year declining trend in Con Edison's force count. Con Edison's average employee headcount has declined year after year from 14,326 employees in December 2008 to 13,259 employees in December 2012, or by 1,067 employees (Exh. 311).

The use of the average historic test year employee headcount will significantly overstate the forecast of labor expense in the rate year since it does not fairly reflect the Company's current employee headcount (Staff Accounting Panel, p. 71). In effect, the Company's forecast, excluding program changes, seeks funding for 457 employees that the Company did not have as of December 2012.

Staff forecasted the Company's rate year labor expense based on the average force count of 13,259 as of December 2012.

Staff considered its forecast was conservative in light of historic and continuing trend in the Company's employee force count (Staff Accounting Panel pp. 71-73).

In addition, Staff's rate year forecast includes 42 program change positions that the company indicated would be filled prior to the end of the rate year. As such, Staff's rate year forecast average employee headcount is 13,301 (Staff Accounting Panel, p. 79).

In rebuttal, the Company contends that the average employee level for December 2012 is not representative of the employee level in the historic test year. Con Edison asserts that administrative matters, such as the Company's hiring process, were overlooked due to the need to respond to its union related work stoppage and Superstorm Sandy that occurred in 2012 (CE Electric Accounting Panel R/U, p. 72). Moreover, in rebuttal the Company requested an additional 22 employees (CE Electric Accounting Panel R/U, pp. 27-28).

The Company provided no evidence to support the claim that the two identified events led to a lower than normal or declining employee headcount. In fact, the Company concedes that its argument is theoretical and cannot be quantified (CE Accounting Panel R/U, p. 72). The Company's claims that the events led to an aberrant force count are suspect, for the trend from the test year to December 2012 is consistent with trends for the prior four years (Exh. 311). Without any credible support, the Company's claims should not be given any consideration in these proceedings.

Con Edison is also critical of Staff's use of the December 2012 employee headcount. The Company alleges that historically it has experienced a greater percentage of retirements at the end of the year (CE Electric Accounting Panel R/U, p. 72). The Company further criticizes Staff for not using

a more recent employee headcount (CE Electric Accounting Panel R/U, pp. 72-74). However, Con Edison's employee headcount continued to decline from December 2012 through February 2013 (Exh. 912). Staff recognizes that the employee headcount increased modestly from March through June 2013 (Exh. 912). However, four months of data is not sufficient to establish an increasing trend, especially in light of the significant decline in employee headcount from December 2008 through February 2013. (Exh. 102 & Exh. 311). In fact, using the December 2012 employee headcount of 13,259 is conservative, since it does not extrapolate the historic downward trend in employee headcount into the rate year forecast.

In summary, the Company's rate year forecasted employee force count of 13,716 before program change represents a gross overstatement relative to the 13,259 employees the Company paid in January 2013, the time of its direct filing. Consequently, the use of the Company's average historic test year employee headcount will materially overstate the labor expense in the rate year and must be rejected. Staff recommends that the Commission establish the rate year forecast of labor expense based on the December 2012 average employee headcount of 13,259, plus the 42 new employees initially requested but not reflected in the December 2012 headcount, plus the 22 new employees requested in rebuttal for a total of 13,323 employees in the rate year. This level of force count is reasonable given the Company's demonstrated work force requirements.

ii. One Percent Productivity

The Company's rate year forecast of labor expense reflects a one percent annual productivity factor from the historic test year through the rate year (CE Electric Accounting Panel Direct, p. 106). Staff's rate year forecast of labor

expense reflects the same one percent annual productivity factor (See, Staff Accounting Panel, pp.73-79).

However, Con Edison argues that Staff's productivity imputation is overstated. The Company's Accounting Panel claims that by using the December 2012 force count level as the starting point for Staff's labor forecast, productivity gains achieved during the last half of 2012 are already embedded in Staff's employee level. This results in approximately a \$5.2 million overstatement. (CE Electric Accounting Panel R/U, pp. 76-77). The Company's claim concerning the Staff's productivity adjustment is without merit.

The Commission has articulated that labor expense is merely a surrogate to calculate overall productivity gains, and it is not intended to equate directly to a reduction in employee levels.² In fact, the Company's Electric Infrastructure and Operations Panel agrees stating, "...the Commission has made clear many times that the productivity adjustment to labor is merely a proxy for an amount of unspecified productivity gains to be reflected in rates. Savings contributing toward attaining the imputed savings can result from a multitude of aspects of the Company's cost of doing business" (CE Electric Infrastructure and Operations Panel R/U, p. 113).

Further, the alleged overstatement in productivity adjustment is merely a function of the method by which the Company computes its productivity adjustment. As previously stated, Con Edison applies a one percent annual productivity factor to labor expense from the end of the historic test year through the end of the rate year. Based on Staff's adjusted labor expense, this methodology yields a productivity adjustment

² Case 06-E-1433, Orange and Rockland Utilities, Inc., Order Setting Permanent Rates, Reconciling Overpayments During Temporary Rate Period and Establishing Disposition of Property Tax Refunds (issued October 18, 2007) (2007 Rate Order), pp. 18-19.

of approximately \$17.1 million. Although the Commission has accepted the Company's methodology to estimate the level of productivity adjustment in previous cases, traditionally the Commission measures productivity based on one percent of the sum of rate year labor expense, fringe benefits, and payroll taxes for other utilities (Id.). Based on the Commission's traditional measurement, and using Staff's forecasted level of labor expense, fringe benefits, and payroll taxes, the rate year productivity adjustment is approximately \$14.7 million. Therefore, at a minimum the Commission should apply a productivity adjustment of \$14.7 million which is on par with other New York Utilities (Id.).

The Company's position should be discarded as it would yield a productivity adjustment of \$11.9 million, well below other utilities. Moreover, if Con Edison can achieve productivity gains of approximately \$5.2 million in labor costs alone in a six month period, then Staff's productivity adjustment is arguably conservative. Extrapolation of the Company's \$5.2 million labor related productivity gain in six months (June - December 2012) for the remaining portion of the bridge period and rate year would yield a productivity adjustment of approximately \$20.8 million.

Staff's recommended rate year forecast of labor expense, reflecting a one percent annual productivity adjustment from the end of the historic test year through the end of the rate year, is consistent with past Commission determinations for Con Edison. As such, it should be adopted.

iii. Progression Increases

The Company's rate year forecast of labor expense included a 0.7% semi-annual wage progression increase for weekly employees (CE Accounting Panel Direct, p. 107). However, the Commission denied such requests in prior Con Edison rate cases.

In its 2009 Electric Rate Order³, the Commission denied the Company's request to include incremental wage progression allowances in the Company's labor expense forecast. The Commission determined that costs related to the wage progressions were reflected in the historic test year labor costs which the Company sought to increase for incremental progression awards. Specifically, the Commission determined that employee turnover would result in savings that were not reflected in the Company's forecast methodology (Order 08-E-0539, pp.38-41). In addition, the Commission determined that the Company's forecast included wage progressions for employees who were at the top of the wage progression scale, and therefore were not entitled to additional wage progressions (Order 08-E-0539, pp.38-41).

Staff shares the Commission's view. Staff maintains that the savings resulting from employees leaving the Company offset the costs associated with other employee's advancement and wage progressions. However, in reflecting a lower actual headcount in the rate year labor expense forecast, Staff acknowledges the potential of capturing some of the savings that would otherwise offset wage progressions in the rate year (Staff Accounting Panel, p. 78). Therefore, due to the potential for double counting savings, Staff does not recommend a wage progression adjustment, if Staff's labor forecast were to be adopted by the Commission.

iv. Escalation

While Staff is not addressing "Escalation" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

³ Case 08-E-0539, Con Edison- Rates, 2009 Electric Rate Order (issued April 24, 2009), pp. 38-41.

v. Staffing-level issues

See our discussion in the Employee Levels section, above.

vi. Labor Capitalization Rate/Program Changes

The Company correctly asserts that Staff's employee headcount adjustment to the rate year forecast of Company labor expense was offset by 34% to account for labor costs that are on average capitalized (CE Electric Accounting Panel R/U, p. 78). However, the Company contends that Staff's adjustment did not take into account the percentage of labor costs that are deferred or billed to third parties, and therefore not charged to expense. The Company argues that the appropriate adjustment for reduction to employee headcount should be 47% to arrive at the rate year expense impact (CE Electric Accounting Panel R/U, p. 78).

Staff agrees in part. The Company's monthly payroll distribution for the historic test year indicates that the actual percentage of labor costs that were charged to construction projects, retirements, deferred and billed to third parties was 45% (Exh. 894). Based on this actual information, Staff's adjustment associated with the reduction in employee headcount and the labor related program changes should be reduced by 45%, not 47% as suggested by the Company and is reflected in Staff's updated revenue requirements.

Though Con Edison finds fault with Staff for not reflecting the appropriate percentage of labor costs that should be expensed, the Company expensed 100% of labor costs associated with its requested incremental employees for program changes (Tr. 1579). In other words, for every labor dollar associated with a reduction in employee headcount, the Company argues that only half of that dollar should be considered expense. Yet for every labor dollar associated with incremental employees, the Company suggests that 100% should be considered expense.

Clearly, the Company's approaches here are inconsistent. Staff recommends, and reflects in its updated revenue requirements, an adjustment to expense only 55% of the rate year labor costs associated with the Company's requested labor related program changes.

b. Management Variable Pay

It is Con Edison's position that the costs of the benefits and compensation package offered to its non-officer management employees, inclusive of variable pay, are appropriate business expenses incurred in order for the Company to attract and retain employees to help it achieve its performance goals of providing ratepayers with safe and reliable utility service (CE Compensation and Benefits Panel Direct, pp. 8, 60).

The Commission has provided utilities with two alternative routes for funding of management compensation plans in rates: show that the level of total compensation, including incentive pay, is reasonable and comparable, and that plan objectives do not conflict with customer interests or Commission policies; or, treat incentive pay as an award or bonus, but show that the plan provides quantifiable ratepayer benefits (Staff Policy Panel Direct, p. 12). Staff testified that the Company adequately addressed the Commission's directives and Staff's recommendations in O&R Cases 10-E-0362 and 11-E-0408 regarding the methodology behind the comparability study of similarly situated peer companies used to demonstrate the reasonableness of its benefits and compensation package. The results of the Company's total compensation study indicated that its total benefits and compensation package value falls within the market competitive range of plus or minus 10% (Edmundson Direct, pp. 30-31). Thus, Staff recommends that the Commission permit Con Edison to recover the costs of its benefits and compensation package.

At the same time, our analysis indicates that clear opportunities exist for Con Edison to improve its showing of the comparability of its benefits and compensation package with those of its peer companies in future rate filings. Specifically, the positional benchmarking analysis performed by Con Edison in these cases incorporated only 30% of its non-officer management positions. Given Staff's and the Commission's positions regarding methodological issues in prior cases, we do not believe, at this time, that the low percentage of positions benchmarked is a sufficient enough reason to disallow the costs of the Company's benefits and compensation package in rates. The Commission previously only provided broad guidelines and declined to define specific parameters for the design of total compensation studies. Thus, we propose to improve the compensation study guidelines by recommending a rebuttable presumption that the Company be required to benchmark a minimum of 50% of positions in future rate filings (Edmundson Direct, pp. 4-5, 30-33). We further recommended; however, that if the Commission determines in these proceedings that the Company has not met its burden of showing comparability, we cannot conclude that the plan provides incremental ratepayer benefits, and the costs of the program therefore should be disallowed (Staff Policy Panel, p. 19). Staff also recommends that the targets for the management compensation plan be adjusted to reflect any changes to the corresponding targets for the Commission's shareholder incentives, and should incorporate the performance measures and targets for any new shareholder incentives that are implemented by the Commission (Staff Policy Panel Direct, p. 20).

In rebuttal, the Company took issue with our proposal that Con Edison be required to benchmark at least 50% of its positions (CE Compensation and Benefits Panel U/R, pp. 16-17).

However, this position contradicts Company witness Paul Schafer's rebuttal testimony in O&R Case 11-E-0408 in which he acknowledged that that case "covered approximately 50% of O&R's management employee population. This level of coverage is typical market practice for studies of this nature" (Case 11-E-0408, Schafer Direct, p. 2, ll. 20-22).

The total compensation study used by National Grid in Case 12-E-0201 was referred to by Staff as an example of a study that was able to benchmark more than 50% of a utility's positions (Edmundson Direct, p. 24; Exh. 281). In rebuttal, Con Edison states that this is because "the benchmark data was applied to all positions within a salary band or range, not specifically matching each position in the analysis" (CE Compensation and Benefits Panel U/R, p. 17). However, the Company is mistaken since an examination of the data provided in Case 12-E-0201 by National Grid reveals that the compensation study did in fact specifically match each of the included National Grid positions to a position in the Towers Watson survey (Case 12-E-0201, Exhibit 308, pp. 390-417).

Con Edison also found fault with the total compensation studies used by Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SCG) in rate cases before the California Public Utilities Commission. These studies were also referred to by Staff as further examples of studies that were able to benchmark more than 50% of a utility's positions (Edmundson Direct, p. 24; Exh. 281). In rebuttal, the Company stated that the use of a "total sample" in the PG&E and SCG study analyses "results in not all peers being 'similarly situated' and in inconsistency in peers among the total benefits and compensation elements" (CE Compensation and Benefits Panel U/R, p. 17).

For the PG&E and SCG studies, the "total sample" from certain compensation surveys was used for only certain employee categories that were not included in the other survey sources, which allowed the studies to more accurately represent the employee populations. The Company must recognize that the Staff recommendation in Case 11-E-0408 regarding the use of consistent peer groups was in response to the inadequacies of the compensation study that were identified in that case. It would be short-sighted to presume that the Commission, which did not formally adopt this recommendation, would not allow reasonably, if not perfectly, consistent peer group data in certain situations, if doing so would allow for a more accurate, comprehensive, and reasonable representation of the employee population as a whole. In both rebuttal testimony and in cross-examination, the Panel indicated its belief that the Commission's primary objective in conducting a total compensation study was to maintain the consistency of the peer groups (CE Compensation and Benefits Panel U/R, p. 16; Tr. 1796). Aside from the fact that the Commission never indicated that this was its sole objective, the goals of a total compensation study should be to maximize both the quality and quantity of positions benchmarked in order to ensure that the benchmarked positions are reasonably representative of the overall employee population.

Both NYECC and County of Westchester claim that the costs of Con Edison's benefits and compensation package should not be recovered in rates. However, NYECC's testimony relied on the outdated Commission determination that variable pay plans must be self-supporting through productivity savings (Bomke Direct, pp. 17-18). Subsequent Commission Orders in Cases 10-E-0362 and 11-E-0408 state that the costs of a benefits and compensation package could be recovered in rates, if it is

demonstrated that they are reasonable, using a total compensation study of similarly situated companies. Thus, the requirement that a variable pay plan must be self-supporting has since been superseded. The County of Westchester claimed that the Company's salaries are excessive (Mugrace Direct, p. 73). In fact, the Company's data showed that the base salaries of Con Edison's non-officer management employees are only 2% above the median of the Expanded Utility Peer Group and are essentially equal to the median of the New York Metropolitan Peer Group (Exh. 458).

While Staff recommends that, in these proceedings, the Commission allow Con Edison recovery of the costs of its benefits and compensation package in rates, given that its total compensation study met the Commission's current standards and addressed the methodological issues raised by Staff in Cases 10-E-0362 and 11-E-0408, we have identified an area in which future total compensation studies should continue to improve. For this reason, Staff recommends that the Commission clarify its current standards so to require a utility seeking to recover these costs in rates to benchmark a minimum of 50% of its positions. The targets for the management compensation plan should also be adjusted to reflect any changes to the corresponding targets for the Commission's shareholder incentives, and should incorporate the performance measures and targets for any new shareholder incentives that are implemented by the Commission. If, on the other hand, the Commission determines in these Cases that the Company has not met its burden of showing comparability, the costs of the program should be disallowed, as it provides no incremental ratepayer benefits.

c. Pension/OPEB Expense Level

Con Edison's rate year forecast for Pension expense included expenses associated with the Company's Supplemental Retirement Income Plan (SRIP) (CE Electric Accounting Panel, p. 66). The Company's SRIP is a non-qualified retirement plan that is incremental to the retirement benefits provided to all Company's employees under its qualified pension plan (Staff Accounting Panel, p. 86). Specifically, the SRIP provides benefits to certain highly compensated individuals whose full benefits exceed the limit imposed by the Internal Revenue Service for tax deduction purposes (Exh. 313 p. 77).

Con Edison claimed that the Company's SRIP is part of an overall reasonable compensation package (Exh. 313 p. 73). However, the costs of SRIP were not included in any of the Company's compensation studies provided regarding management compensation (Exh. 313 p. 282 and Exh. 313 p. 372). Since the Company did not provide any evidence to support the cost of program as being reasonable, or why customers should be required to support the plan, Staff recommends to remove the SRIP related expenses from the Company's rate year forecast of pension expense (Staff Accounting Panel, pp. 88-89).

The Company maintains it is common practice for public, state and local employers to provide an incremental non-qualified pension benefit in addition to a tax qualified plan (CE Compensation & Benefits Panel R/U, p. 12). The Company's argument is flawed. Although public employers may provide pension benefit plans in addition to a tax qualified plan, the key difference is that it is the governmental employee, not its employer, who contributes to those plans. Here, it is Con Edison, not its employee, that makes the SRIP contribution.

The Company also states that contrary to Staff's assertion, the SRIP does not provide certain employees with

discretionary benefits. (CE Compensation & Benefits Panel R/U, p. 14). Con Edison's SRIP is a discretionary benefit provided to certain highly compensated individuals in excess of the Company's qualified pension plan (Staff Accounting Panel, p. 87). The Company determines which employees are allowed to participate as well as the type and level of benefit provided (Staff Accounting Panel, p. 86). In fact, only 81 out of the Company's approximately 13,200 active employees participate in the supplemental plan (Exh. 313, p. 115). Upon review, the SIRP appears to be a benefit that is highly discretionary.

The Company never disputes the fact that no evidence was provided to justify the program as part of a reasonable compensation package, nor does the Company provide a rationale as to why customers should be required to support the plan. Based on these facts Staff recommends the expenses associated with the SRIP be excluded from the Company's rate year forecast of pension expense.

d. Municipal Infrastructure

i. Forecasting Methodology (O&M and Capital)

In the Company's initial filing, the Municipal Infrastructure Support Panel (MISP) forecasted total Rate Year interference O&M expense of \$102.4 million, or \$79.6 million for electric, \$17.9 million for gas and \$4.8 million for steam.⁴ (CE MISP, Direct, p. 17). On rebuttal, Con Edison increased its forecast of Rate Year interference O&M expense to \$115.912 million, or \$90.164 million for electric, \$20.282 for gas and \$5.466 million for steam (CE MISP, R/U, p. 4).⁵ With regard to Infrastructure capital expenditures, the Company originally forecast a total of \$150.3 million, or \$69.3 million for

⁴These numbers are before the Company's Accounting Panel made a general inflation adjustment to this forecast.

⁵ These numbers are pre-inflation adjustment.

electric, \$76.0 million for gas and \$5.0 million for steam, for the Rate Year (CE MISP, Direct, p.27). The Company also provided a forecast of \$148.3 million for calendar year 2013, or \$70.9 million for electric, \$74.2 million for gas and \$3.2 million for steam. On rebuttal, the Company upwardly revised its forecast for Gas capital expenditures during 2013 by \$5.3 million, to \$79.5 million. The remainder of its capital expenditure forecasts for 2013 and 2014 did not change (CE MISP, R/U, p. 2). The Company used the same forecasting methodology to arrive at its forecasts of interference O&M expense to capital expenditures (Staff MISP, p. 14). As will be explained in greater detail below, the Company's forecasts have a great number of variables and are based, in large part, on unverifiable judgment. Accordingly, the Commission should not rely upon the Company's forecasts.

Staff recommends a forecast of Rate Year O&M expense of \$68.984 million for electric, \$15.746 million for gas and \$6.110 million for steam (Staff MISP, p. 11). With regard to interference capital expenditures, Staff recommends the Company's interference capital expenditure for the Rate Year be set at \$106.8 million, or \$49.7 million for electric, \$55.0 million for gas and \$2.1 million for steam (Staff MISP, p. 17). Staff also recommends that the Company's interference capital expenditure in 2013 be set at \$102.6 million (Staff MISP, p. 18). In contrast to the Company's variable, and in part unverifiable, estimates, Staff's forecasts are based on an analysis of actual New York City and Company spending in prior periods. In light of this firm grounding in objective fact, the Commission should adopt Staff's recommended interference O&M and capital expenditure forecasts.

The Company's forecasts of interference O&M expense and capital expenditures include costs associated with three

categories of City expenditures: 1) recurring annual programs, 2) projects with defined scopes, and 3) preliminary projects with undefined scopes (CE MISP, Direct, pp. 19-21). For the first category, the Company bases its forecasts for recurring annual programs on the average expenditures for the previous three years. For the second category, projects with defined scopes, Con Edison derives its forecasts on an evaluation of the specific infrastructure design plans. Finally, for the third category, projects with undefined scopes, there are two scenarios. For projects with a defined location and undefined scope, the Company evaluates the factors that could potentially impact its facilities based on historic experience to develop a cost estimate. For projects with an undefined location and a defined scope, the Company's cost estimate reflects an extrapolation of expenditure trends from available completed projects that the Company considers to be similar. The MISP's initial forecasts reflect the list of projects from the City's May 2012 capital commitment plan. The MISP's updated forecasts reflect the list of projects from the City's May 2013 capital commitment plan. In response to DPS-555, the Company stated that, while the forecasting methodology it proposes in this case is "more refined", it is "consistent with the City's capital commitment plan as" utilized by Con Edison in previous rate cases, including 08-E-0539 (CE MISP, R/U, p. 13; Exh. 233, p. 103).

Initially, Staff notes that the Commission has previously found that the forecasting methodology used by the Company in prior cases "rests on more variables than DPS Staff's, increasing the chances of error."⁶ To the extent that

⁶ Case 08-E-0539, Con Edison - Electric Rates, Order Setting Electric Rates (Issued April 24, 2009), p. 63.

Con Edison has refined its methodology, it appears to have done so in a manner that increases the number of variables.

Additionally, the Company's methodology heavily relies on the New York City capital commitment plan. This document is updated three times each year. As explained in Staff's testimony, between versions programs are added, deleted, postponed, or otherwise modified (Staff MISP, pp. 6-7). The Company's attempt to rebut this point serves only to undercut the Company's reliance on the capital commitment plans further. For example, the Company argues that one program, listed in the May 2012 capital commitment plan as "HWP2010MX 'City Wide Ped Ramps'" is the same as a program listed as "HWMP2010MX 'Various Catch Basins'" in the January 2013 publication. Yet, from the publication itself, there is no way to verify that these two differently named and described programs are one and the same. Another flaw in relying on the New York City capital commitment plans is that the plans also contain "adopted budgets" and "commitment targets" which change with each successive publication (CE MISP, U/R, p. 5; Exh. 233, p. 103). The Company has not shown that the most recent publication, i.e., the May 2013 publication, contains the most reliable budget or commitment target, as compared to what New York City will ultimately spend in a given fiscal year. As the Company describes its methodology, its use of the New York City capital commitment plans incorporates a great deal of unverifiable judgment, not just in what to rely on in the Capital Commitment plan, but in estimating costs for projects that even the Company describes as having "undefined scopes."

Moreover, on rebuttal, the Company increased its Rate Year O&M forecast by \$13.6 million, and for support, stated that:

The City's latest 2014 projection shows an adopted budget of \$2.78 billion in the categories that typically incur interference. This is a dramatic increase from the January 2013 publication of \$915.9 million (CE MISP, R/U, p. 5).

However, when asked to explain "how the scope and timing of [the] City's capital projects included in its May Capital commitment plan are linked to the City's budget, or appropriations...", the Company failed to provide an adequate response. Instead the Company responded with a red herring, stating that "[t]he scope and timing have a direct impact to interference expenditures and are reflected in the Company's forecasts (Exh. 769)(emphasis added). The Company's reliance on judgments and the City's changing commitment plans results in unreliable Rate Year forecasts of interference O&M expense and capital expenditures.

In contrast, Staff proposes to forecast Rate Year interference O&M expense based on the City's actual expenditures because of the strong correlation between Con Edison interference expenses and City actual expenditures as indicated in response to DPS-134 (Exh. 233, p. 50). In addition, since Staff's forecasts are based on actual Con Edison O&M expenses and City spending, the results reflect projects from all funding sources and eliminate the uncertainty as to the sources of project funding, an issue raised by the Company (CE MISP, R/U, p. 17). Additionally, Staff's methodology obviates reliance on the ever changing New York City capital commitment plans.

In the past, when applied over time, Staff's forecasting methodology has resulted in reasonable forecasts. For example, over the course of the last electric rate plan for Con Edison (April 1, 2010 - March 31, 2013), the cumulative target for electric interference O&M expense was \$208.555

million. Over that period, Con Edison actually incurred O&M expenses of \$201.604 million, a difference of only \$6.951 million (Exh. 898). Indeed, over the course of the entire last electric rate plan, and two rate years plus nine month of the third rate year for the current gas and steam rate plans, the combined variance from the forecast, was \$6.745 million, or approximately 2% of the total expense (Exh. 898).

Moreover, while we acknowledge that the City's actual spending over the last five years has increased, it is far from certain that this trend will continue. Indeed, the Company states that it's analysis shows that the City's anticipated 2013 expenditures are \$940.5 million (CE MISP, R/U, pp. 20-21). This is lower than the City's 2012 expenditures of \$1,025.6 million (Exh. 233, p. 46).

In summary, Staff's forecasting methodology relies on the City's actual expenditures and the correlation between the City's actual expenditures and Con Edison's interference expenses. If applied consistently, Staff's methodology will produce reasonable interference forecasts. In contrast, the Company's preferred methodology relies heavily on the ever changing New York City capital commitment plans and unverifiable "judgment." Accordingly, Staff's recommended methodology and interference forecasts should be adopted by the Commission.

ii. Interference Overheads

The Company proposed in its formal update to increase its rate year forecast of interference expense by \$7.524 million (\$6.019 million Electric, \$1.129 million Gas and \$0.376 million Steam)(CE Accounting Panel R/U [E] p. 31, [G] p. 22, [S] p. 22). This increase was proposed to reflect an alleged shift of Company construction overheads from capital to expense based on forecasted activity. The Company did not provide any justification or supporting work papers for this adjustment.

The Company ultimately provided justification for the proposed increase in response to Staff information request 719 (Exh. 896).

Staff continued to seek clarification for the change in forecast at the evidentiary hearings. Through cross-examination, the Company acknowledged that its response to DPS-719 did not contain a breakdown of construction overheads the Company is seeking to reallocate from capital to expense (TR. 1606-1607). Moreover, the Company's Accounting Panel was unsure of the nature of the Construction Overheads, and was unable to explain if they represented the overheads for the entire construction management department or just those associated with the Company's oversight of interference work (TR. 1606-1607). The Company Accounting Panel claims it used historic test year and rate year interference expenditures to reallocate construction overheads from capital to O&M expense (See, TR. 1599-1605). However, the interference expense amounts used to allocate the overhead reflected in DPS-719 are totally inconsistent with the interference O&M expense reflected in the historic period and the Company Municipal Infrastructure Support Panel's (MISP) updated rate year forecast of interference expense reflected in the revised MISP-2 (Exh. 24). With amounts mismatched between the MISP forecast, historic data, and the Company Accounting Panel calculation, the forecast change cannot be verified by Staff. Without providing verifiable support for the forecast change, Con Edison failed to meet its burden of proof.

e. Electric Non-Labor Expense Adjustments

In its direct case, the Company proposed a \$26.7 million increase to its Structure (Inspections & Repairs) category (IIP Direct, p. 261). Structure (Inspections and Repairs) includes funding for stray voltage testing,

inspections, and repairs of its facilities as required by the Safety Standards pursuant to various Commission Orders in Case 04-M-0159.⁷ This additional funding is primarily needed to conduct more targeted inspections in order to meet the requirements of the Commission for the five-year underground inspection program that ends in December of 2014.

i. Underground Five Year Facility Inspection Program

Con Edison requested approximately \$37 million for 2014 to perform inspections of underground distribution structures (Exhibit 242, pp. 277-279). The structures that are covered under this program include distribution manholes, service boxes, transformer vaults, and URD facilities. In practice, Con Edison conducts the 280,000 inspections through a combination of "ad hoc inspections" that occur during normally scheduled work and "targeted inspections" (IIP Direct, pp. 261-262). To reduce program costs ad hoc inspections, which cost less per inspection, were carried out during the earlier years (2010 and 2011) of the inspection cycle and targeted inspections, which are more costly, are introduced during the later years (starting in 2012) to complete the inspection cycle. At the completion of the current cycle in 2014, a return to a primarily ad hoc inspection mode as described above is projected to decrease program expenses by approximately \$27.6 million to historical year levels through the 2015 and 2016 rate years (IIP Direct pp. 261-264).

For this program, we recommended a funding level of \$24 million for 2014. This is a \$13 million reduction from Con Edison's proposed funding level of \$37 million. The following information was our basis for our adjustment. For 2013 and

⁷ Case 04-M-0159, Proceeding to Examine the Safety of Con Edison's Electric Transmission and Distribution Systems, Notice Soliciting Comments (issued July 8, 2008).

2014, Con Edison has 154,679 inspections remaining to be completed by ad hoc and targeted inspections. Staff assumed half of the outstanding inspections will be completed in 2013 and the remaining will be finished in 2014. Con Edison uses internal crews to do ad hoc and targeted inspections, while two contractors are used for targeted inspections (IIP Direct, pp. 261-262). Each contractor works under a two-year contract with a cost per inspection and repair type and a maximum funding level. Based on the data provided by the Company in response to DPS-210 (Exhibit 242, pp. 216-239), over the past three years, for every inspection completed, a repair is also completed. This data, along with the maximum funding level, were used to estimate the number of inspections the contractors will complete over the two years. We then subtracted this from the 154,679 total inspections remaining and also subtracted the number of ad hoc inspections estimated to be completed each year based on the 2012 level to derive the number of targeted inspections to be done by Con Edison crews over the two year period. Knowing the amount of inspections to be completed by the different parties, Staff was able to determine the cost of completing these inspections. For contractor cost, the values stated in the contracts were used. For ad hoc inspections, we used the average cost to complete such work in 2010 and 2011. For targeted inspections to be performed by Con Edison crews, we used the average targeted inspection cost in 2012 (SEIIP Direct, pp. 88-91; Exhibit 242, pp. 216-239).

In the March 22, 2013 Order in Case 04-M-0159, the Commission approved changes to how Underground Residential Distribution (URD) inspections, that is funded under Con Edison's five year underground inspection program, can be done which would now allow Con Edison to use contractor forces to complete most of these inspections. Con Edison stated in

response to DPS-392 (Exhibit 242, p. 277) that there will be \$1.9 million in savings over two years (2013 and 2014) resulting from the use of contractor labor to perform external inspections of URD transformers. We accounted for this reduction as part of our recommended \$13.4 million adjustment to the underground inspection program previously discussed (SEIIP Direct, p. 92; response to DPS-392).

In rebuttal, the Company claimed that Staff underestimated the inspection and repair cost for targeted inspections by using the inspection and repair cost in the Company's contract, which does not reflect the total inspection cost. The Company stated that it incurs costs for flushing structures as well as contractor oversight in addition to contractor unit cost for inspection and repairs (IIP U/R p. 57).

Con Edison argued that Staff underestimated the number of targeted inspections to be performed in 2014 and that Staff's estimation of ad hoc inspections to be performed in 2014 is inaccurate because it uses 2012 data as benchmark. Con Edison disagreed with the estimation because it believes that as the five year inspection cycle progresses, the number of structures available to be inspected on an ad hoc basis decreases since more and more structures will have already been inspected. With respect to the specific crews that will be performing targeted inspections verses ad hoc inspections, the Company stated that its plan is to use only contractors for targeted inspections, and that Staff is incorrect by stating that both Company forces and contractors will be performing target inspections in 2014 (IIP U/R, pp. 57-58).

The Company updated the initial funding request based on the Commission's March 22, 2013 Order approving changes to how URD inspections can be done and the May 22, 2013 Order in Case 04-M-0159 granting a three-month extension to March 31,

2015, to complete inspections. The revised program request for 2014 is approximately \$34.5 million (IIP U/R, pp. 26-27 and pp. 57-59). The Company concluded by stating that Staff's \$13 million funding adjustment would provide inadequate funds to complete the required inspections and that it would be subjected to a risk of severe penalty for failure to comply with the Commission's Electric Safety Standards. (IIP U/R, pp. 56-59)

Upon learning about the additional costs that the Company states in its update/rebuttal testimony are included in this program, Staff issued additional IRs and reviewed the Company's responses found in Exhibit 863, 864, 865, and 872. Staff now agrees with the \$34.5 million revised budget proposed by the Company in its update/rebuttal testimony (IIP U/R, pp. 58-59) and no longer recommends the \$13.5 million adjustment for this program.

ii. Manual Stray Voltage Program

Under the Manual Stray Voltage Testing Program annual stray voltage testing of approximately 561,000 utility owned electric facilities and municipality owned street and traffic lights is done (Exhibit 242, p. 237). The Company proposed a funding level of \$3.2 million for 2014 (Exhibit 243, p. 9).

Staff recommended adjustment of \$845,000 was based on the program modifications directed by the Commission in its March 22, 2013 Order in Case 04-M-0159. Now, pursuant to the March 22, 2013 Order, utilities are allowed to test for stray voltage on all overhead, URD, underground transmission structures, and substation fences on a five-year cycle instead of annually. This change is expected to reduce expenses for meeting the requirements of the Safety Standards. In response to DPS-392 (Exhibit 242, pp. 277-279), Con Edison estimates that the change to the stray voltage testing requirement will result in an annual savings of \$845,000 under its current

contracts. Therefore, we recommend an \$845,000 reduction for 2014 (SEIIP Direct, pp. 91-92; Exhibit 242, pp. 277-279). The Company agreed to Staff's recommendation in its rebuttal testimony (IIP U/R, p. 56).

iii. URD Transformer Inspection

While Staff is not addressing "URD Transformer Inspection" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

iv. Mobile Stray Voltage Testing

The Mobile Stray Voltage Testing program includes the scanning of the underground electrical distribution system for stray voltage utilizing mobile electric field detection (Exhibit 242, p. 237). The Company is required by the Commission under various Orders in Case 04-M-0159 and the 2008 electric rate case to complete twelve scans of the underground distribution system each rate year.⁸ The Company proposed a funding level of \$7.8 million, \$9.1 million and \$ 9.1 million for 2014, 2015 and 2016, respectively (Exhibit 243, p. 9).

We recommended a funding level of \$7.8 million be used by the Commission for 2015 and beyond because the Company failed to provide a basis to justify an increase in the program from \$7.8 million to \$9.1 million (SEIIP Direct, pp. 92-93).

[REDACTED]

⁸ Case 04-M-0159, Proceeding to Examine the Safety of Con Edison's Electric Transmission and Distribution Systems, Order Adopting Changes to Electric Safety Standards (issued and effective December 15, 2008).

[REDACTED]

f. Gas Non-Labor Expense Adjustments

i. Global Adjustment

The Company projected \$90.4 million in O&M expenses or \$2.2 million over its historic budget. The \$2.2 million increase was comprised of a \$1.4 million one-time credit from the New York City Department of Water Resources and \$0.8 million to support new mandated in-line testing of gas transmission pipeline (CE Gas Infrastructure, Direct, p. 136). Staff recommends an adjustment based on the Company's actual spending level for the historic test year of \$87.27 million (Staff Gas Infrastructure, Direct, Corrected, pp. 38-39).

In rebuttal, the Company provides, for the first time, new information regarding two water main breaks that occurred in July 2011 and August 2011 that it failed to include in its initial case (CE Gas Infrastructure, R/U, p. 136).

Staff's O&M adjustment should be adopted. The Company did not justify its increased expense level over the historic year. Staff asked the Company to reconcile its O&M Productivity Report with its forecast, but the Company did not provide any additional information (Exh. 591). Moreover, the Company also omitted any mention of water main breaks in its response to Staff regarding a reconciliation of its O&M spending in calendar year 2012 and its Element of Expense Report-Gas operations 12-month ending June 30, 2012 (Exh. 836).

The Company has the burden of proof to demonstrate there is a basis for its requested cost. The expenses relied upon by the Company were not reflected in the Company's

Productivity Reports and was new information without any supporting workpapers. Based on the absence of any justification for the additional costs for these two water main breaks, Staff recommends adjusting its O&M expense to the \$85.09 million level that was supported by the Company in its initial filing (Exh. 591). Staff's recommendation is based on an average for two years of actual data from the Company's O&M Productivity Reports. Therefore, applying a \$2.2 million normalized adjustment to Staff's revised number for the historic test year of \$85.09, results in \$87.27 million of forecasted O&M expense in the Rate Year (Staff Gas Infrastructure, Direct, Corrected, p. 39).

g. Steam

i. Trap Replacement and Cap Inspections

Con Edison proposes to eliminate the semi-annual cap inspection (CE Steam Operations, Direct, pp. 118-119), and annual replacement of steam traps on its steam distribution system. This program was mandated as a result of Commission Order in Case 07-S-0984 due to an incident on the Con Edison steam system located at 41st street and Lexington Avenue, NYC. In that Order the Commission directed Con Edison to explore a redesign of its steam trap assemblies to ensure that debris would not collect inside the trap assemblies, which could cause a fail closed scenario. The Company has redesigned the trap assemblies to include strainers to filter out debris which might otherwise collect in the traps. It has introduced procedures to clean the strainers periodically, and it has stopped using a product called "leak seal", which was the main composition of the debris that contributed to the above incident. Staff agrees with Con Edison's contention that the semi-annual trap cap inspection is no longer necessary due to the re-designed trap

assemblies, and the Company should be permitted to cease this program, which would result in O&M cost savings. However, Staff has concerns regarding the elimination of the annual trap replacement program (Staff Steam Safety Direct, pp. 7-9).

Eliminating this program without a comprehensive study of the effective life-span of a steam trap in the Con Edison system could result in situations where Con Edison may wait until this vital operational equipment fails before it is replaced. This result could be avoided with the continuation of the existing proactive replacement program, or alternatively, completion of a study documenting the effective life of the traps and reflecting that time period in their scheduled replacement. Note that any proposed change would need to be approved by the Commission.

ii. Mandated Trap Inspections

Con Edison proposes to eliminate the steam distribution trap inspections, in locations where there Remote Monitoring System (RMS) is installed and functioning properly. (CE Steam Operations, Direct, pp. 118-119) The Company is currently required to perform the inspections six times a year, at intervals not exceeding 10 weeks. The required inspections include functionality and capacity tests.

It is Staff's position that these inspections should continue, because as stated in its Direct Testimony, the Company has not demonstrated that the RMS System is sufficiently reliable to take the place of the required inspections (Staff Steam Safety, Direct, pp. 8-9). Con Edison states that if the RMS stops reporting the trap will be scheduled for an inspection (CE Steam Operations R/U, pp. 29-30), however, that process would potentially enable the trap to be out of service for 10 weeks. In addition, the Company has not provided procedures for

the trap monitoring, nor any training program for employees monitoring the RMS system.

The Company has not sufficiently justified its proposed elimination of the mandated inspection program and it is Staff's position that the Company should not be permitted to implement the 'retrospective' program it has proposed until the effectiveness of its proposed modification to the required inspection process is sufficiently demonstrated. In addition, it should be noted that these inspections are required by 16 NYCRR 420.8(a) and cannot be waived in these proceedings. When the Company can demonstrate the required level of RMS reliability, it may petition the Commission for modification of the testing program, at which time if approved by the Commission, the Regulation may be amended.

h. Shared Services Non-Labor Expense Adjustments

**i., ii., iii. Structural Inspections and Repairs,
Painting and Wall Treatment
Maintenance Floor Maintenance
Program**

The Company has requested Rate Year O&M expense of \$734,700 for its Structural Inspection and Repair Program, \$524,800 for its Painting & Wall Treatment Maintenance Program, and \$446,100 for its Flooring Maintenance Program (Collectively Facilities O&M Programs) (CE Shared Services, Direct, pp.124-125).

Staff recommended Rate Year O&M expenses of \$140,000 for the Structural Inspection and Repair Program, \$14,000 for the Painting & Wall Treatment Maintenance Program, and \$201,100 for the Flooring Maintenance Program for the Rate Year (Staff Shared Services, pp.16-17). Staff derived its recommendation from the fact that, for each of these Facilities O&M Programs, the Company's spending has not reached the budgeted levels over the last few years and the Company had not provided a reasonable

explanation why the Commission should expect the Rate Year expense to dramatically depart from recent historic experience (Staff Shared Services, pp. 15-18).

On rebuttal, the Company asserts that the main reason for the under-spending for each of the Facilities O&M programs was that the programs reflected repairs necessitated by leaking roofs, and the Company had focused on repairing the roofs first (CE Shared Service, R/U, pp. 39-43). However, the Company's explanation does not support the reasonableness of its Rate Year expense forecasts for each of these three programs.

Staff asked the Company what roofs it has replaced in recent years. In response to DPS-763, the Company provided a list of some of the buildings at which it has replaced roofs in recent years (Exh. 903; Tr. 1649-1652). Admittedly, the Company has replaced roofs at a number of the same buildings, or at least at the same addresses, as the Company states it intends to perform work under the Facilities O&M Programs. However, the Company's information undercuts its assertion that it was the need for roofing work that caused the delays and under-spending in these other programs.

First, the timing of the roofing projects and the delay in doing other work at some of the sites simply does not align. Many of the roof replacements cited by Con Edison were completed before the end of 2010 (Exh. 903). For example, Con Edison asserts that it intends to make masonry repairs at its W. 28th St. service center during the Rate Year under the Structural Inspections and Repairs Program (Exh. 226, p. 59). Con Edison states that these repairs are necessary due to conditions found during an inspection in 2008 (Exh. 226, p. 64). The Company states that it replaced the roof at the 28th Street location in 2008 (Exh. 903, p. 1). Thus, for the W. 28th St. location, the Company's assertion that the roof replacement in 2008 has

resulted in a delay in doing masonry repairs, the need for which was documented in a 2008 assessment, is illogical. Con Edison also asserts that it will do work under the Flooring and Painting/Wall Treatment Maintenance Programs at the W. 28th St. site in 2014. As with the masonry repairs, it is illogical to assert that this work was delayed until 2014 because the roof needed to be replaced, when that roof was replaced in 2008.

Second, the Company's assertion that projects in the Flooring and Painting/Wall Treatment Maintenance programs were delayed due to the need to replace leaking roofs, which were the underlying problem is undercut by the Company's explanation for why the flooring and wall maintenance is required. Were the leaking roofs the cause of the need for flooring and wall maintenance, one could expect to see inspection results noting "water damage" as the reason for the needed maintenance. However, the information provided by the Company only notes "worn out carpet and broken floor tiles" as the inspection result necessitating flooring maintenance and "peeling paint, multiple scuff marks and damaged drywall" as the inspection result necessitating wall maintenance.

Third, Con Edison's assertion that the roof replacements are the cause of the under-spending in the Facilities Programs undercuts the reliability of the budget estimates the Company advances for the Rate Year. Con Edison does not suggest that the roof replacements were an unexpected need. Thus, to the extent the need for roof replacements impacted the Facilities Programs, that impact would logically have impacted the budgets for these programs, and the Company would have still spent in accord with its budgets for these programs in recent years. However, a review of spending on the Flooring Maintenance Program shows that its budget has remained relatively constant at \$417,000 - \$425,000 for years 2010

through 2012 (Exh. 226, p. 76).⁹ This is relatively close to the Company's budget for this program for the Rate Year. However, the Company's spending in years 2010, 2011 and 2012 was much lower than budgeted, \$4,000, \$210,000 and \$297,000, respectively (Exh. 226, p. 76). Thus, it appears that the need for roof replacements in the past does not support a finding that the Company will spend its budgeted expenses for the Facilities Programs during the Rate Year, and indeed calls into question the reliability of the Company's budgets altogether.

Con Edison undercuts the likelihood of actually completing the scheduled work during the Rate Year as well, when it notes that in the past it has perhaps under-spent on these Facilities Programs, using the money for other programs (Tr. 1634).

In view of the foregoing, Staff does not believe it is credible that the Company will spend the amounts it requested for the Facilities Maintenance Programs during the Rate Year. Accordingly, we recommend that the Commission reject the Company's proposed expenses, and instead adopt Staff's recommended expense levels.

In its direct testimony, Con Edison requested funding for its GOLD Program at a level of \$5.4 million for the Rate Year (CE Shared Services, Direct, p. 97). Staff made a downward adjustment, recommending that the program be funded at the level of \$4.23 million for the Rate Year (Staff Shared Services, p. 14). On rebuttal, the Company accepted Staff's adjustment "for the purposes of this case" (CE Shared Services, R/U, p. 43).

In its update/rebuttal testimony, the Company updated its request with regard to the O&M expense for the steam

⁹ The Company did not provide historical budgets for the Painting and Wall Treatments Program. The historical spending for that program though, was minimal in 2009 and 2010, and zero in 2011 and 2012 (Exh. 226, pp. 76, 77).

customer care and billing system (CE Shared Services, R/U, pp. 27-29). Staff does not oppose this update.

i. Employee Benefit Expenses

i. Health Care Escalation

Con Edison proposed to use plan-specific escalators, developed by its health care plan providers, to forecast health insurance costs for the rate year (CE Compensation & Benefits Panel Direct, pp. 101-102). The use of plan-specific escalation factors to project health care costs is inconsistent with the Commission's policy of forecasting known health care costs with a general inflation factor. This policy was established in Commission Opinion No. 84-27 issued October 12, 1985, and reaffirmed in numerous Commission decisions including Opinion 94-3 issued February 11, 1994. In the 1994 Opinion, the Commission stated: "The treatment of medical insurance costs as one factor in a large pool of expenses subject to inflation should produce a reasonable result, because some items will increase at a rate greater than inflation and others at a lower rate."

The Commission more recently reaffirmed its position of including medical care expenses in the inflation pool in a 2008 Rate Order¹⁰. In the 2008 Order, it stated: "The practice uses the recent costs and the current employee count to capture the present operating conditions. It also acknowledges that the costs in this and many other categories are expected to increase. Overall, the Company is expected to manage the cost increases in the entire group and to keep them, as best it can, to the general inflation rate. By this time, we would expect the utility companies to have accepted the standard practice and to apply their resources more productively to other matters."

¹⁰ Case 07-E-0423, Con Edison - Rates, Order Establishing Rates for Electric Service (issued March 25, 2008) (2008 Rate Order), pp. 42-43.

(Id.).

In rebuttal, Con Edison asserts that the general inflation factor does not capture additional fees imposed on employers or cost increases attributed to government mandates on types of benefits that must be provided under an employer's health care plan (CE Compensation & Benefits Panel R/U, p. 1). However, that assertion is pointless, because the Company updated its rate year forecast of health care insurance costs to include fees that the Company expects to pay under the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act)(CE Compensation & Benefits Panel R/U, p. 6).

Consistent with past Commission practice, Staff's rate year forecast of health insurance costs reflects the use of the Company's latest known costs, including those fees expected under the Affordable Care Act, escalated by rate of general inflation to the rate year (Staff Accounting Panel, p. 93).

ii. Enrollment Levels

The Company disagrees with Staff's use of actual 2013 plan enrollment levels to forecast rate year health insurance costs (CE Compensation & Benefits Panel R/U, p. 7). Con Edison contends that due to changes the Company made to its health care plans in 2012, employees were required to enroll themselves and eligible dependents in one of the new health care options (CE Compensation & Benefits Panel R/U, p.7). The Company further asserts that a number of employees failed to enroll or waived coverage for 2013 (CE Compensation & Benefits Panel R/U, pp. 7-8). The Company claims that it expects the employees who failed to enroll for 2013 will enroll into one of the Company's health care programs for 2014 (CE Compensation & Benefits Panel R/U, p. 8).

The Company provided no credible evidence that supported its speculation that higher enrollments may occur in

the future. Staff discovered that the Company's changes to the health care plan increased cost to its employees through higher deductibles, co-insurance, or co-pays (Tr. 1851). The Company further acknowledged that employees may have waived coverage because they have other coverage options elsewhere or the cost of the program became too expensive (Tr. 1852). It is too speculative to determine whether employees will return to the Company's plan in the future.

Consistent with past Commission practice, Staff's rate year of forecast health insurance costs reflects the use of the Company's latest known enrollment numbers. Staff's recommendation is based in fact, not speculation. It represents the best forecast that can be made based on known data. As such, Staff's forecast of health insurance costs is reasonable and should be adopted.

j. Insurance

The Company's update/rebuttal case reflects an estimated \$1.01 million increase in property insurance premiums due to extensive property damage sustained as a result of Superstorm Sandy (CE Accounting Panel Electric R/U, p. 31). The Company's testimony indicated that the actual premiums would be known in July (CE Accounting Panel Electric R/U, p.31). Con Edison provided work-papers based on known premiums supporting an actual increase in property insurance cost of \$2.3 million in the rate year. Staff has reviewed the supporting evidence and does not take exception to the revision. Staff noted Con Edison's intention to update insurance expense for its latest known insurance premiums, and Staff did not take exception to an update (Staff Accounting Panel Direct, p. 97). Accordingly, Staff's updated revenue requirement recommendations reflect the required adjustment increasing the Company's rate year forecast

of insurance expense by \$1.334 million (\$0.803 million Electric, \$0.056 million Gas and \$0.475 million Steam).

k. Institutional Dues and Subscriptions

Rate recovery of donations for charitable, social or community welfare purposes is unconstitutional (Cahill v. PSC, 76 N.Y. 2d 102 [1990]) (Staff Accounting Panel p. 100). Such donations must be booked in a below the line account, and in turn, excluded from utility revenue requirements for ratemaking purposes (Staff Accounting Panel p. 100).

In its initial filing, the Company requested a rate year allowance for Institutional Dues and Subscriptions of \$2.557 million (\$1.776 million Electric, \$0.717 million Gas and \$0.064 million Steam) (Staff Accounting Panel p. 100). Due to concerns that the Company mistakenly reflected charitable contributions in its historic book costs and its rate year forecast, Staff recommended an adjustment, based on limited data supporting the forecast. Staff's adjustment reduced the Company's request by \$0.745 million (\$0.605 million Electric, \$0.098 million Gas \$0.042 million Steam). Additionally, Staff requested the Company to provide more information in its rebuttal case in order to determine the actual level of charitable contributions that should be eliminated from the Company's rate year forecast (Staff Accounting Panel p. 101).

The Company provided detailed information and proposed to eliminate the expenses for corporate membership contributions included in its rate year forecast (Con Edison Accounting Panel Electric R/U, P. 90). Staff supports the Company's proposal. However, the Company's update/rebuttal revenue requirement presentations did not reflect the adjustments. Accordingly, Staff's updated revenue requirement recommendations reflect the required adjustment to remove these contributions from the

Company's forecast \$0.0464 million (\$0.325 million Electric, \$0.131 million Gas and \$0.008 million Steam).

1. Research and Development

The Company proposed to eliminate the current downward-only reconciliation for its internal gas R&D program in the Rate Year (CE Troy Devries, R/U, pp. 3-4). In a one year case, the Company's proposal to remove the downward-only reconciliation is reasonable and Staff accepts this variation (Exh. 806).

Staff also accepts Con Edison's Gas R&D Millennium Fund forecasted level of expenditures of \$1.96 million. However, the mechanism used to collect the Millennium Fund needs to be matched with the actual required fund on a year-to-year basis, so that under or over collection can be mitigated. Due to the oil-to-gas conversion program, Con Edison can expect to realize an increase in its sale forecast volume in the rate year. With the current surcharge rate, the Company will over collect 17% more than its budgeted level (Exh. 588).

Therefore, the Commission should lower the Company's Millennium Fund surcharge from \$0.0174 per DT to \$0.015 per DT as recommended by Staff (Staff Gas Policy, Direct, p. 30).

m. Consultant and Regulatory Commission Expense

The Company's rate year forecast of Consultant and Regulatory Commission expense is based on historic costs that include costs associated with the Commission's investigative audit¹¹ related to fraudulent and illegal acts committed by Con Edison employees and contractors (Exh. 313 pp. 140-141). Staff proposed to normalize these costs from the rate year forecasts

¹¹ Case 09-M-0243, Comprehensive Investigative Accounting Examination of Consolidated Edison of New York, Inc. and Case 09-M-0114, Consolidated Edison Company of New York, Inc., Proceeding on Motion of the Commission to Examine the Prudence of Certain Capital Program and Operation and Maintenance Expenditures by Consolidated Edison Company of New York, Inc.

(Staff Accounting Panel, pp. 84 & 103). In Staff's view the acts that caused the investigation should not recur due to the significant internal control changes the Company made or plans to make as a result of the investigation (Staff Accounting Panel, pp. 84 and 103). Moreover, in case 09-M-0114 (prudence case) Staff argued that deficiencies in the Company's design and execution of internal controls facilitated criminal activity by its employees and contractors (09-M-0243, *Comprehensive Investigative Accounting Examination of Consolidated Edison of New York, Inc.*, report prepared by Charles Rivers Assoc., [Oct.14, 2010] pp. 2-3). Customers should not be required to bear costs stemming from a utilities management's failure to maintain and execute adequate internal controls.

The Company argues that while the expenses related to the Commission's investigative audit may not recur in the rate year, the Company could incur other unanticipated consulting and regulatory commission expenses in the rate year (CE Electric Accounting Panel R/U, p. 83). In an attempt to substantiate its claim, the Company references a past Commission Order¹² in which it was allowed to include non-recurring costs related to an independent audit in a rate year forecast (CE Electric Accounting Panel R/U, p. 83).

The Company's interpretation of the 2009 Commission Order is flawed. In that case, the non-recurring expense related to an independent audit that was replaced by the cost of another audit. In this proceeding, the Company has not provided any evidence that the non-recurring costs will be replaced by a new audit, investigation or proceeding.

In addition, the Company contends that the consultant expenses related to the investigative audits have already

¹² Case 08-E-0539, Consolidated Edison Company of New York, Inc., Order Setting Electric Rates (Issued and Effective April 24, 2009), pp 98-99

benefited customers. In particular, the Company argues that its internal controls have been enhanced and the analysis furnished by the consultant served as the basis for the Company to pursue a lawsuit against the indicated contractors and its claims for crime insurance coverage (CE Electric Accounting Panel R/U, pp. 84-85).

While Staff applauds the Company's efforts to enhance its internal controls, the consultant expenses associated with the investigative audit were due to breakdowns in Con Edison's internal controls (Staff Accounting Panel p. 84). Indeed, the purpose of the audit was to investigate the deficiencies within the Company's processes and systems that failed to recognize fraudulent behaviors. Since the Company has not provided any evidence that these non-recurring costs will recur in the rate year, and the fact that these costs would not have been necessary if not for the breakdown in the Company's internal controls, Staff's recommended adjustment should be adopted.

n. Uncollectable Expense

The Company forecasted that 49%, or \$10.299 million, of its forecast of electric Purchase of Receivable (POR) discount revenue of \$20.853 million would be uncollectible in the rate year (Staff Accounting Panel, p. 106) and that 43%, or \$1.438 million of its forecast of gas POR discount revenue of \$3.363 million would be uncollectible in the rate year (Staff Accounting Panel, p.109).

Staff rejected the forecasts because it viewed the approaches as arbitrary, and the Company failed to adequately support them (Staff Accounting Panel, pp. 106-107). Staff recommended that the Company's actual average uncollectible accounts write-off rate of 0.63% be applied to the latest levels of POR accounts receivable purchased to forecast the rate year levels (Staff Accounting Panel, p. 107-108. Staff's forecast

resulted in reductions of \$2.9 million and \$0.178 million to the Company's rate year electric and gas POR uncollectible expense forecasts, respectively (Staff Accounting Panel, p. 108 and 111).

In rebuttal, the Company reduced its forecast of electric uncollectible POR accounts expense to \$9.084 million and increases its forecast of gas uncollectible POR accounts expense to \$1.471 million. The Company also claims that Staff's approach is inconsistent with the approach that Staff used in calculating electric and gas POR discount revenues (CE Accounting Panel Electric R/U, p. 95). Con Edison maintains that in estimating POR revenues Staff used the 2013 discount rate. In order to be fair and consistent with that approach, the Company argues that Staff should have applied the uncollectible portion of the discount rate to its projection of POR discount revenues for purposes of calculating POR uncollectibles accounts expense (CE Accounting Panel Electric R/U, p. 96).

Con Edison mistakenly views the uncollectible portion of the discount rate being charged ESCO's as a reasonable proxy for its cost that should be reflected in revenue requirement. The cost reflected in revenue requirement should be based on the Company's actual uncollectible write-off experience, which is a true representation of the cost of service. The Company has provided no argument that Staff miscalculated its actual POR uncollectible write-offs. Based on the foregoing, Staff's recommendation should adopted.

To be consistent with the rate year forecast of electric and gas POR discount revenues, Staff recommends that its forecast be updated to reflect accounts receivables purchased during the twelve month period ended June 30, 2013 (Exh. 897). This results in updated rate year electric and gas

uncollectible POR accounts expense forecasts of \$7.174 million and \$1.364 million, respectively.

o. Project One Savings Imputation

Staff recommends that the Commission impute \$6.540 million (\$5.307 million Electric, \$0.864 million Gas and \$0.369 million Steam) of cost savings in the rate year forecast of O&M expense Staff Accounting Panel, p. 115-116). The operational savings are related to Con Edison's approximate \$150 million dollar investment in its new financial system, Project One (Staff Accounting Panel, p. 113). While the investment was made and some operational savings have been realized, the level of Company projected savings is not fully reflected in the Company's revenue requirements in these cases.

Staff's imputation represents Con Edison's estimate of net savings that Staff relied on in supporting the Project One investment in the Company's last electric rate case (Staff Accounting Panel, p. 116). Although Staff took issue with Project One in the Company's last electric rate case, the Company persuaded Staff through information provided in rebuttal testimony and information provided during negotiations to support the project as part of the Joint Proposal to the Commission (Staff Accounting Panel p. 114).

Con Edison claims that it has not yet realized the savings demanded by Staff, and it would be unreasonable to assume the Company will realize them in the rate year (CE Accounting Panel (CE Mucillo R/U, p. 43). The Company maintains that Staff may expect rates to reflect savings when they occur, but Staff's expectation is premature (CE Mucillo R/U, p. 44). Staff's support of the project was largely due to the net benefits that were to be realized from the investment once implemented (Staff Accounting Panel, p. 114). Absent those projected savings, it is doubtful that Staff would have

considered, let alone supported, the Company's request (Staff Accounting Panel, p. 116). If the Company miscalculated the amount and/or timing of cost savings resulting from its Project One investment, then the Commission must make sure that it is the Company, not its customers that bear the impact of that miscalculation (Staff Accounting Panel, p. 116).

p. Austerity Reversal

The Company's filings include adjustments for austerity that increase its forecast of rate year O&M expenses by \$16.7 million (\$13.2 million Electric, \$2.0 million Gas and \$1.5 million Steam). Staff removed the \$16.7 million austerity cost allowance due to lack of support and verifiable link between the historic test year and the rate year as required by Commission Policy (Staff Accounting Panel, p. 69).

Con Edison claims that its proposal is to restore the level of funding for operating programs that was allowed prior to the Commission's requirement that utilities reduce program spending as an austerity measure (CE Accounting Panel R/U, p. 67). It also acknowledges that it reversed the austerity adjustment without indicating how the dollars would be spent (CE Accounting Panel R/U, p. 67). The Company maintains that the austerity allowance should be allowed without reference to any new spending initiatives, and that it be permitted to later report how the dollars will be spent (CE Accounting Panel Electric R/U, p. 68).

The Company's position that the austerity adjustment be reversed without reference to any new required spending initiatives, and that the Company later report to the Commission how the monies will be spent is clearly wrong. Commission Policy for rate cases since 1977 requires that there be a verifiable link between actual costs incurred by a utility in a

historic period and the projected costs in the rate year.¹³ There is no justification for the need or nature of the costs allowance requested. Thus, there is no way for the Commission to determine if the cost request is just and reasonable (Staff Accounting Panel, p. 69). Con Edison has simply failed to meet its burden of proof in requesting a blank check for \$16.7 million. The Company's request for unidentified and unsupported expenditures must be rejected.

q. General Escalation

While Staff is not addressing "General Escalation" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

r. Platts Subscriptions

The Company proposed to recover the Platts subscription charges through the Fuel Adjustment Clause (FAC) for steam (CE Steam Fuel Direct, pp. 33-34). The Company also proposed that the cost of Platts services be recovered through its Monthly Rate Adjustment (MRA) for gas. In rebuttal, the Company revised its proposal for its Platts subscription from an enterprise site license to a single location site license at a cost of \$250,000. The cost allocation to gas and steam would be 76% and 24%, respectively. Although Staff initially disagreed with the Company's level of spending, we now agree with the Company's proposal to purchase Platts single site location license. But, we recommend that the cost of Platts be recovered through base delivery rates not the FAC or the MRA (Staff Gas Policy, Direct, pp. 27-28).

The Company has not justified recovering its costs through the FAC or the MRA. The purchase and usage of Platts

¹³ Statement of Policy on Test Periods in Major Rate Proceedings, New York Public Service Commission (Nov. 23, 1977).

data is an on-going operational expense that is incurred by all gas companies doing business in New York. Therefore, the cost of Platts should be treated in a similar manner to any other operating expense and be recovered through base delivery rates.

s. A & G Expense Capitalized

Staff took exception to the Con Edison's forecast of rate year A&G expense capitalized. Based on the Company's forecast of capital expenditures, Staff recommended increasing the capitalized component of Administrative and General (A&G) costs by \$4.690 million and \$0.408 for electric and gas, respectively, and decrease the capitalized costs for steam by \$1.639 million (Staff Accounting Panel, pp. 66-68).

In rebuttal, the Company argues that pursuant to its accounting methods, its capital spending only impacts the distribution of the credit among electric, gas and steam operations, and it has no impact on the amount of the total A&G costs that are capitalized (CE Accounting Panel Electric R/U, p.70). Staff has been able to verify the Company's claim and upon further review recommends that the forecast of rate year A&G expense capitalized reflect \$28.138 million, \$8.680 million and \$1.594 million for electric, gas, and steam service, respectively.

V. Taxes Other Than Income Taxes

a. Property Taxes

Staff, with one very minor exception, accepted the Company's forecasts of rate year property tax expenses for each service. In rebuttal, the Con Edison disclosed that the Company recently received information from New York City regarding tentative rates for the 2013/14 fiscal year which indicate that should those tentative rates become the actual new rates, the forecast of NYC property taxes would be reduced substantially

(CE Property Tax & Depreciation Panel, p. 13). The Company estimates a reduction to its rate year forecasts of \$65.3 million for electric, \$8.8 million for gas and \$1.2 million for steam (CE Property Tax & Depreciation Panel, p. 13). During cross examination, the Company indicated that it expects the actual rates for 2013/14 to be known in November even though actual bills will be issued perhaps a month after later (TR. 55).

Since the potential reduction to tax expense has a material impact on rates, and the Company expects to know the impact before the Commission decides these cases, the Company should be directed to provide the impacts to Staff and/or the Commission before the actual impacts can be properly reflected in the rate Order. Additionally, since the potential reduction will also materially impact property tax expense before the rate year, specifically between July 1, and December 31, 2013, we recommend that the Company be directed to update its property tax reconciliation over collection deferred balance and proposed refund of deferred property tax expense balances in these proceedings before the Commission renders its decision.

b. Payroll Taxes

Staff believes that this is merely a tracking adjustment to the rate year forecast of labor expense, but we reserve our right to respond in our Reply Brief to issues raised by the parties.

c. Subsidiary Capital Tax

Although Staff proposed an adjustment to the Company's rate year forecast of Subsidiary Capital Tax, based on information provided in response to Staff requests concerning the calculation of the tax, the only remaining issue in connection with Staff's proposed adjustment is with respect to the level of common equity to use in determining the tax in the rate year.

Should the Commission adopt Staff's proposed capital structure, then 48% of the sum of the Company's electric, gas, and steam rate bases should be used as the equity base. Should the Commission opt to use the Company's forecasted capital structure, then the common equity as reflected therein should be used.

VI. Depreciation

In its initial filing Con Edison provided a depreciation study on which the Company based its depreciation proposals, specifically, average service lives and net salvage rates for plant accounts, and the resulting depreciation expense and theoretical reserves. In turn, Staff utilized the provided depreciation study to develop its own depreciation recommendations. Staff recommends that the Commission adopt average service lives, net salvage rates and survivor curves that would result in decreases to Con Edison's proposed depreciation expenses for its electric, gas and steam businesses (Staff Depreciation Panel, p. 12). Staff's recommendations also reduce Con Edison's proposed theoretical reserves for electric, gas and steam by approximately \$363 million, \$140 million and \$112 million respectively (Staff Depreciation Panel, pp. 12-13). Approximately 60%, 31% and 36% of the differences between Staff and the Company's theoretical reserve for electric, gas and steam, respectively, is due to Staff's recommended net-salvage rate adjustments. The remainder of the differences is due to Staff's recommended adjustments to average service lives and survivor curves.

a. Average Service Lives

Staff proposes different service lives and survivor curves than the Company for 24 of the 39 electric accounts, 13 of the 18 gas accounts and 14 of the 17 steam accounts. Staff

proposed the different service lives and survivor curves for these accounts because the survivor curves fit, or track, the actual retirement history for the account more accurately than those selected by the Company.

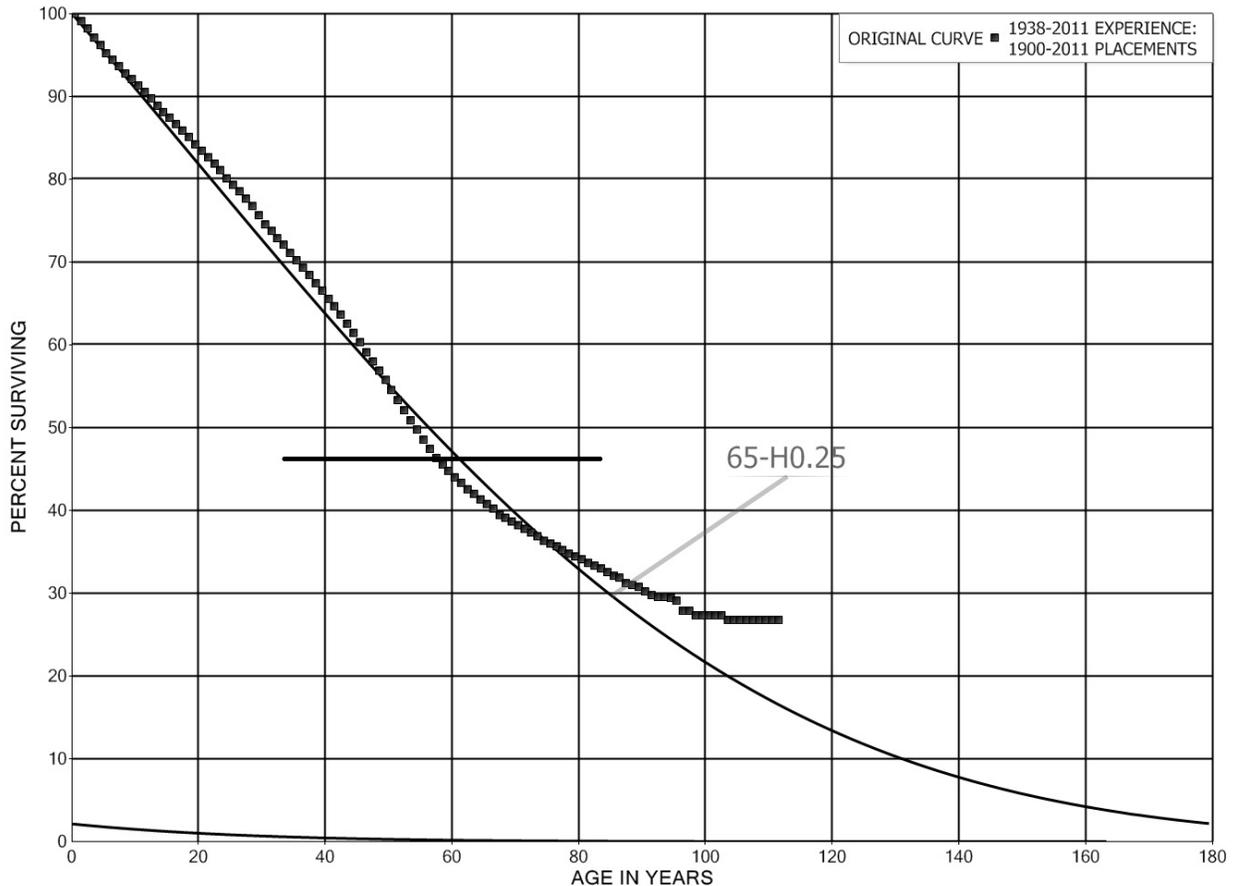
In its rebuttal testimony, the Company asserts that Staff "performed no analysis other than to select best-fit curves selected by computer software" (CE Property Tax & Depreciation Panel, R/U, p. 108). However, this is not true. As explained by the Staff Depreciation Panel, Staff's recommendations are based, not solely on the output of computer statistical software, but also based on visually comparing h-curves with the actual survivor curves for each account (Staff Depreciation Panel, p. 14). Additionally, the Company refers to the NARUC manual regarding factors used to determine the appropriate service lives besides the observable trends reflected in historical data (CE Property Tax & Depreciation Panel, R/U, p. 111-112). The Company listed the factors but provided no specific information or explained the supposed informed judgment it used regarding these factors that they used for any accounts other than accounts 364 and 365.

For account 364, the Company uses its supposedly informed judgment in showing that its proposed curve better fits a truncated survivor curve that stops at age 57 than the curve selected by Staff (CE Property Tax & Depreciation Panel, R/U, pp. 115-122). The survivor curve is truncated because the company removed data points with less than \$5 million in exposures and \$100,000 in retirements because it thought such data points were not significant data points. There are two problems with the Company's truncation of this curve.

First, while the Company asserts that because these data points represent "very little dollar investment", the Company ignores that, for plant older than 57 years, common

sense suggests that the original cost was less than the original cost for comparable plant today. Thus, while in today's dollars the investment may appear small, that does not mean that the experience of plant older than 57 years lacks significance.

Second, as acknowledged by the Company the NARUC manual states that the use of a T-cut can have an adverse effect on reliability when the truncation is made near the mode of the retirement frequency curve, i.e., the steepest portion of the survivor curve (Tr. 53-54, Exh. 765). As shown below, the Company chose to truncate the actual survivor curve for account 364 near the steepest part of the graph.



The line made of square data points shows the actual survivor curve for account 364. The horizontal line shows the point at which the Company truncated the actual survivor curve. The smooth curve is the survivor curve which Staff recommends for account 364.

Thus, contrary to the Company's assertion, the survivor curve chosen by the Company does not represent a better fit for account 364.

With regard to account 365, the Company's assertion that Staff's recommended average service life is too long cannot withstand scrutiny. First, Staff's recommended service life of 70 years is only five years longer than the Company's own proposal for this account (Exh. 238, p. 32). Second, in comparison to the actual survivor curve for account 365, both Staff's and the Company's proposed survivor curves are below the actual survivor curve. Thus, a longer average service life arguably could be proposed.

Staff recommends that the Commission adopt our proposed average service lives and survivor curves. These average service lives and survivor curves represent better matches to the actual experience for the plant accounts in controversy. The record does not support the Company's specious arguments against the use of Staff's recommended average service lives and survivor curves.

b. Net Salvage

The Company proposes net salvage rates that allow the Company to collect more money from current customers than is necessary. In contrast, Staff recommends net salvage rates which generally reflect the average salvage costs for each account over the last five years. In response, Con Edison makes a number of claims, which, when viewed with a reasonably critical eye, fail to undercut Staff's recommended net salvage rates.

First, the Commission has adopted Staff's recommended net salvage methodology in past cases. Con Edison asserts that with regard to Central Hudson Gas & Electric Corporation

(Central Hudson)¹⁴ and Niagara Mohawk Power Corporation d/b/a National Grid (National Grid)¹⁵ the Commission's adoption of Staff's net salvage methodology was based on adverse economic circumstances (CE Property Tax & Depreciation Panel, U/R, p. 54).

In the Central Hudson case, Con Edison cites to the Recommended Decision, because there is no comparable language in the Commission's order. Indeed, when discussing the adoption of net salvage rates for electric plant accounts, the Commission stated that it:

"agree[s] that there is nothing extraordinary about Staff's use of recent historic data as a check to ensure that allowances for net salvage received by Central Hudson reflect its actual requirements."¹⁶

Contrary to Con Edison's insinuation, while the Commission does address economic considerations in other parts of its Order, it does not do so when addressing depreciation.

In the National Grid case, when discussing depreciation, the Commission does not mention, much less rely on existing economic circumstances. The quote cited in the Company's rebuttal testimony is again from a recommended decision, not the Commission's Order. Indeed, in its order, the Commission stated:

Here, the issue is whether the net salvage values employed by Staff are adequate to cover plant removal costs when the time comes due for plant retirements. By using a recent average of the removal costs the Company has experienced, Staff

¹⁴ Cases 08-E-0887 and 08-G-0888, Central Hudson Gas & Electric Corporation - Electric & Gas Rates, Order Adopting Recommended Decision With Modifications (issued June 22, 2009).

¹⁵ Case 10-E-0050, Niagara Mohawk Power Corporation d/b/a National Grid - Electric Rates, Order Establishing Rates for Electric Service (Issued January 24, 2011).

¹⁶ Cases 08-E-0887 and 08-G-0888, supra, pp. 35-36.

has provided an acceptable basis for setting the net salvage accruals.¹⁷

Second, the Company uses misleading charts and tables to suggest that Staff's recommended net salvage rates will not cover costs as retirements and net salvage costs continue to grow (CE Property Tax & Depreciation Panel, R/U, pp. 88, 89, 91-92). However, the Company's charts and tables fail to incorporate the commensurate expected growth in plant balances. As the plant balances grow, even with a constant net salvage rate, annual net salvage accruals will increase, which should pay for the increased net salvage costs.

For example, we turn to account 364. (Exh. 764) In 2001, retirements for account 364 were approximately \$1.1 million. In 2011, retirements for account 364 grew to \$6.4 million, as implied by the Company. In 2001 the net salvage costs for account 364 were about \$2.1 million. Those costs grew to about \$4.5 million in 2011. During the same time, the plant balances also grew from about \$244 million in 2001 to about \$395 million in 2011. In 2001 the net salvage rate was -75%, which accrued \$4.5 million. Had that net salvage rate been retained, in 2011, it would have resulted in a net salvage accrual of approximately \$5.9 in 2011, significantly more than the 2011 net salvage costs of \$4.5 million. This example shows that, as acknowledged by the Commission in past cases, Staff's recommended net salvage rates can provide sufficient net salvage accruals on an ongoing basis, because of growth in plant balances.

As another example, we can compare the outcomes of Staff's methodology and the Company's methodology for account 369.2. From 2001 to 2011, the retirements for account 369.2 actually declined from about \$3 million to about \$2.4 million.

¹⁷ Case 10-E-0050, *supra*, p. 64.

The salvage costs grew from about \$12.7 million in 2001 to about \$19 million in 2011. The plant balances also grew from about \$595 million in 2001 to about \$1.2 billion in 2011. Had the net salvage rate of -115% in effect in 2001 been in effect in 2011, the growth in plant balances alone would have caused the growth in accruals over this time period from about \$10.5 million to about \$18.3 million. This increase in accruals is sufficient to cover the current five year average net salvage costs of about \$18 million.

The Company asserts that its proposed net salvage rate of -160% for account 369.2 is conservative compared to the results of what it terms the "traditional method" (CE Property Tax & Depreciation Panel, R/U, pp. 67-68). According to the Company, the "traditional method" indicates a 20 year historical average net salvage rate of about -378%, and a recent 5 year average net salvage rate of about -598%. The -378% accrues about \$60 million and the -598% accrues about \$95 million. Either of these accruals is dramatically higher than the Company's actual net salvage expense. In addition, the -378% and -598% net salvage rates increase the theoretical reserve for account 369.2 by 378% and 598%, or about four and six times, respectively. This example shows the unreasonable results of the Company's preferred "traditional method." Staff's approach uses the actual costs incurred as a guide to a more reasonable accrual and theoretical reserve reflecting the net salvage costs the Company is actually incurring.

Third, on rebuttal, the Company indicates that Staff's approach actually under collects the current costs, by about \$108,000, compared to a cost of about \$4 million for account 365 (CE Property Tax & Depreciation Panel, R/U, p. 36). Con Edison misses the forest by looking at an individual tree. The Company fails to indicate that, based on Staff's recommended approach

and net salvage rates, 14 accounts accrue more than the current average costs.

In addition, for accounts 314, 315, 316 and 361, while Staff's proposed rates do not collect the current costs, neither do the Company's. However, for those accounts Staff has proposed larger net salvage rates than the Company (Exh. 237, p. 9). Of note, the electric production accounts 312, 314, 315, 316 are incurring five year net salvage cost above the accruals provided by the current net salvage rates. The Company chose not to increase the net salvage rates for these accounts. In contrast, Staff did increase the rates to more closely approach the current costs (Exh. 237, p. 9). Staff would also like to point out that salvage rates are not set forever. The Company does periodic studies, for almost every rate case, and the net salvage rates can be updated based on more current salvage costs and retirements and plant balances provided in future studies.

Finally, the Company states that the Commission did not approve the PAYGO approach (CE Property Tax & Depreciation Panel, R/U, p. 34). However, this is not relevant. Staff's net salvage methodology is not to the same as the PAYGO approach because it continues to accrue net salvage costs rather than expense them as PAYGO does.

Without delving into detail, Staff does not agree with the proposals of UIU witness Majoros. Mr. Majoros' analysis is flawed. For example, Staff does not agree that his proposed theoretical reserves incorporate his proposed salvage rates (Tr. 66-68).

First we will address the three gas plant accounts for which net salvage is currently capped, with the excess net salvage expensed. Staff recommends retaining the cap and expensing the additional net salvage costs for the cast iron mains account, as does the Company. However, Staff recommends

discontinuing the cap and expense treatment for net salvage for the steel mains and services accounts. For the steel mains and services accounts the current salvage accruals significantly exceed the actual costs being incurred. Therefore, there is no need to continue the cap and expense treatment. The company did not provide any additional support for continuing the cap and expense treatment other than its unpersuasive arguments for not supporting staff's methodology for developing net salvage rates in general.

Second, NYC proposed to cap all salvage rates for all electric, gas and steam accounts at -50%. NYC's proposal would allow the Company to expense any additional net salvage costs. Staff does not agree with NYC's proposal for the same reasons it recommends not continuing to cap the gas steel mains and services accounts, namely that it is in general unnecessary and adds additional layers of complexity. Additionally, Staff does not agree with NYC's proposal because it would allow the Company to retain or lose revenues if it experiences actual net salvage expenses that are more or less than the amount included in rates as an expense (Exh. 971).

c. Reserve Variation

Our Depreciation Panel recommends adjustments that will increase the Company's proposed book to theoretical reserve surplus from \$92 million to \$232 million, or an additional \$140 million (Staff Depreciation Panel Direct, p. 13). In light of the revenue requirement decrease we recommend for gas service, we are not proposing an amortization of the reserve surplus in the rate year. As long as the surplus remains in gas rate base, customers would, in effect, earn a return at the pre-tax rate of return, on the reserve surplus remaining in the gas depreciation reserve, or about \$20.9 million in the rate year, based on our forecasted cost of capital. In addition, the unused reserve

surplus would be available to mitigate future gas rate increases. The Commission could also adopt a rate credit to spread the reserve surplus over a certain time period or use the reserve surplus to offset material long-term gas regulatory assets currently on the Company's books or as they arise in the future. The tax consequences that can result from the use of the reserve surplus could further benefit customers. Since we are unable to estimate the tax benefits because they are dependent on numerous book-tax depreciation variables and calculations which only the Company possesses, we recommend that, should any gas surplus reserve be used in the gas proceeding, the Company should be required to reconcile and defer any tax benefits associated with the use of the surplus (Staff Policy Panel Direct, pp. 53-56).

d. AROs

While Staff is not addressing "AROs" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

VII. Income Taxes

a. Manufacturing Tax Deduction

In its preliminary steam update, the Company revised its state and federal income taxes to try and recapture the revenue requirement related to the manufacturing tax deduction that was reflected in Case 05-S-1376¹⁸ (Staff Accounting Panel, p. 122). The Company explained in response to interrogatory DPS-410 (Exh. 313), that due to tax law changes establishing bonus depreciation, the Company incurred a loss for federal income tax purposes in 2009 and consistent with federal tax

¹⁸ Case 05-S-1376, Con Edison- Rates, Order Determining Revenue Requirement and Rate Design, (issued September 22, 2006).

regulations, the loss was carried back to preceding years (Staff Accounting Panel, p. 123). As a result of the carry back, the actual amount of the manufacturing deduction the Company was able to realize was \$4.5 million less than the amount reflected in Case 05-S-1376.

Staff removed the manufacturing tax add back from the Company's forecast because the Rate Order in Case 05-S-1376 did not include reconciliation accounting for the manufacturing tax deduction (Staff Accounting Panel, p. 124). Subsequent to evidentiary hearings, the Company informed Staff that upon further review it was withdrawing its request to recapture the revenue requirement related to the manufacturing tax deduction. Based on the foregoing, Staff recommends that the Commission remove the \$1.937 million from the Company's state and federal income tax expense calculations, and it is Staff's understanding that the Company is in agreement.

VIII. Cost of Capital

Con Edison's cost of capital, or the overall rate of return (ROR) on its respective electric, gas and steam rate bases, is calculated by taking a weighted average of the individual cost components of its expected capitalization during the rate year (Staff Capital Structure Panel, p.8). In its June 21, 2013 Update, the Company seeks an after-tax rate of return of 7.57% (Exh. 98, Schedule 2), approximately 10.88% on a pre-tax basis. Staff recommends that the Commission approve an after-tax rate of return of 6.76% (Exh. 296). The overall rate of return accounts for a difference of approximately \$313 million in revenue requirement impact, spread across all three services.

The difference between Staff's recommended rate of return and the Company's is primarily the result of two

adjustments: (1) a reduction in the Company's 10.1% requested cost of equity to 8.7% and, (2) Staff's recommended capital structure, which reduces the Company's requested common equity ratio from 50.06% to 48.00%.

a. Capital Structure

The Company and Staff use different approaches to determine the appropriate capital structure used to establish the fair rate of return, which is then applied to determine the revenue requirements for Con Edison's electric, gas, and steam operations for the rate year ending December 31, 2014. Con Edison's capitalization was developed based upon a "stand-alone" methodology, whereby its actual capitalization components as of June 2012, are projected throughout the linking period and rate year, based upon a pro forma sources and uses of funds analysis (CE Accounting Panel Direct, pp. 171-175). In comparison, Staff recommends an approach that seeks to achieve the optimal cost of capital and also assures that ratepayers will not subsidize Con Edison's parent company's riskier competitive businesses (Staff Capital Structure Panel, pp. 28, 29).

The Company's approach results in a requested capitalization consisting of a 50.06% common equity ratio, a Long Term Debt ratio of 48.48% and a Customer Deposits ratio of 1.46% (Exh. 98[E], 575[G], 674[S] Schedule 2). Staff's recommended approach results in a 48.00% common equity ratio, a Long Term Debt ratio of 50.63% and a Customer Deposits ratio of 1.37% (Exh. 296).

Staff's consolidated approach is the established regulatory practice in New York in fully litigated rate proceedings. Its primary purpose is to ascertain whether the stand-alone capital structures of the utility subsidiaries reflect rational financing policies, and if their common equity components reflect actual common equity at the parent level

(Staff Capital Structure Panel, pp. 15 - 16). Even though at a given point in time a holding company parent may not be employing double leverage or using the financial strength of its utility subsidiaries to improperly capitalize its non-utility operations, the consolidated approach is always warranted. The reason for this is that it can always be presumed that a corporation's management will allocate assets to achieve the best results for its shareholders which may not always be in alignment with the best interests of rate payers.

i. Equity Ratio

Staff finds that in recent years, Consolidated Edison, Inc. (CEI or the parent) has generally been allocating its common equity between its riskier competitive businesses and the regulated utilities in a manner that appears commensurate with their disparate levels of risk (Staff Capital Structure Panel, p. 28). However, a utility's projected stand-alone capitalization should not be blindly approved. It must first be reviewed for reasonableness.

Common equity is the most expensive form of capital for a utility. The required return is significantly higher than the return requirements of debt holders, and the rate must be "grossed up" when setting the revenue requirement to account for income taxes on the net income of a company. The difference in these proceedings is quite pronounced. Staff's overall projected cost of debt for the Company is 5.09% (Exh. 296). The incremental cost of debt is even lower; as the cost rate on the Company's most recent long term debt issuance, in February 2013, was 3.95% (Exh. 770, Company 10-Q). Alternatively, Staff's recommended ROE of 8.7% on an after-tax basis requires a pre-tax rate of return of approximately 14.4% (Staff Capital Structure Panel, p. 31).

Given these very significant cost differentials, care must be given to establishing the correct level of "equity cushion" that is necessary for the Company to continue to be able to attract capital on the same favorable terms that it has enjoyed over the past ten years. Staff notes that over the past decade, the Commission has consistently authorized the Company a common equity ratio of 48.0% (Staff Capital Structure Panel, pp. 31-32). That consistently applied authorized common equity ratio, together with all of the many risk moderating rate making mechanisms that are a mainstay of New York regulation, has enabled Con Edison to regularly generate sufficient amounts of cash flow. Staff's recommended common equity ratio would permit the same cash flow that the Company has enjoyed, and achieved financial metrics that have been stronger than its peers over the past decade (Henry Direct, pp. 56 and 88).

Staff's pro forma cash flow analysis demonstrates that its recommended 48.0% common equity ratio, together with its 8.7% ROE and recommended depreciation and amortization amounts, will afford the Company an opportunity to achieve credit metrics that are generally consistent with its recent past (Henry Direct, p. 56). Thus, there is no good reason to require rate payers to support the Company's unnecessary request to authorize a costlier common equity cushion than it has previously required.

Con Edison argues that its common equity is currently elevated largely as a result of circumstances that it contends are beyond its control. For example, the Company testified that its common equity increased as a result of recent federal tax law changes, primarily what has been referred to as "bonus depreciation." (Tr. 169). Staff recognizes that it has not been unusual for the Company's actual common equity ratio to fluctuate between 48.0% and 50.0% throughout much of the past

decade (Exh. 266). However, the Company is likewise well aware of the Commission's expectations with respect to authorized common equity ratios, and has the expertise within its treasury department to manage its capitalization accordingly. The Company has provided no evidence that the additional layer of common equity is needed to preserve its ability to raise capital at reasonable terms (Staff Capital Structure Panel, p. 31). Moreover, the additional layer of equity is unnecessary to maintain the Company's current credit ratings (Staff Capital Structure Panel, pp. 28 - 29).

Staff's recommendation is to use the same common equity ratio employed in the rate plans for most New York State investor owned utilities, including those currently in effect for Con Edison (electric [09-E-0428], gas [09-G-0795], and steam [09-S-0794]); Orange and Rockland (gas [08-G-1398] and electric [11-E-0408]); Central Hudson (gas [09-G-0589] and electric [09-E-0588]); NYSEG (gas [09-G-0716] and electric [09-E-0715]) and RG&E (gas [09-G-0718] and electric [09-E-0717]). There is no need for ratepayers to support elevated common equity ratios, particularly when New York State electric utilities are essentially transmission and distribution utilities. Moody's views such utilities as having "lower business risk than vertically integrated utilities, which are exposed to commodity price risk related to fueling their generating plants and the myriad operating risks and heavy financial commitments related to owning and operating them (Exh. 972, p. 3).

ii. Cost of Debt

The Company forecasts a weighted cost of debt of 5.17% in its June 2013 Update, based upon updates to the forecasted yields on projected linking period and rate year issuances of its unsecured debt, and updates to the forecasted yields on its existing tax-exempt variable rate debt (CE Accounting Panel R,

p. 47). Staff's 5.09% cost rate determination differs in several respects.

First, since Staff recommends reducing the Company's requested common equity ratio to 48.0%, a corresponding adjustment to the long term debt component is also required. Specifically, Staff recommends increasing the projected amount of new debt, so that it will correspond to a long term debt ratio of approximately 50.63% (Exh. 301; Staff Capital Structure Panel, p. 41). Second, Staff differs with the Company with respect to the appropriate benchmark Treasury used to estimate the cost rates of the Company's new debt. Moreover, there are minor differences with respect to estimates of the spread over Treasuries required by investors. Staff's 4.05% estimate for the two projected rate year issuances, as well as the August 2013 projected issuance, are based upon the sum of the 3.14% actual 30-year Treasury rate for the week ending May 17, 2013, and Citibank's spread estimate of 0.90% (Exh. 301; Staff Capital Structure Panel, p. 40).

The Company uses forecasted 30-year Treasury rates of 3.30% and 3.55% respectively, along with Citibank's most recent spread estimate of 1.15% (Exh. 98[E], 575[G], 674[S], Schedule 6). This results in a cost rate of 4.45% for its August 2013 projected issuance and cost rates of 4.70% for its two projected rate year issuances.

Staff uses the most recent actual Treasury yield because short-term movements in long-term interest rates are difficult to forecast. Such forecasts are poor predictors of the magnitude of the expected change in interest rates, and they are not reliable with respect to the direction of the change (Staff Capital Structure Panel, p. 40). The cost rates of both of the rate year projected 30-year issuances should be updated to reflect the latest known actual 30-year Treasury rate at the

time of the Commission's decision plus 1.15% to reflect Citibank's June 2013 spread estimate. Additionally, the actual amount and cost rate of the projected August 2013 issuance should be reflected, and the Commission could use the actual spread required by investors for that issuance in place of the 1.15% June 2013 estimate (Staff Capital Structure Panel, pp. 41-42).

Furthermore, Staff and the Company disagree with respect to the need for a true-up of the entire cost of debt. Staff agrees with the Company that the cost rates of its variable rate tax-exempt debt securities should be trued-up due to their persistent unpredictable nature, and that the cost rates associated with these types of securities are almost entirely out of the Company's control. However, Staff differs with the Company with respect to the cost rates associated with Con Edison's new debt securities (Staff Capital Structure Panel, pp. 42-44).

In addition, prior to the 2008 financial crisis, the Commission did not true-up long-term debt and there is no indication that the Commission intended the true-up of long-term debt to be anything beyond a solution for the very unique circumstances that were presented after the fall of Lehman Brothers. In Order 08-E-0539, the Commission allowed Con Edison to true-up both the short-term and long-term debt, because there was considerable uncertainty in the financial markets during that time period. In its Order the Commission stated, "We note that such a true-up of debt costs in a one-year litigated rate case is unusual. However, given the special circumstances created by the upheaval in the financial markets recently, such a mechanism is warranted." (CECONY Order 08-E-0539, p. 144).

Unlike the cost rates associated with the Company's variable rate tax-exempt debt, Con Edison has discretion with

respect to the timing, amounts and tenure of its new debt obligations. Moreover, as Staff recommends, if the Commission updates the Company's cost of debt when these proceedings are concluded, the cost rates will already reflect economic conditions present at the beginning of the rate year. The most recent 30 year treasury yield and the Citibank spread estimate from the Company's most recent issuance¹⁹ would incorporate investors' expectations on both a macroeconomic level and specific to Con Edison.

b. Cost of Equity

As is generally the case, the return on common equity (ROE) is a point of significant disagreement between Staff and the Company. The two intervenors who offer ROE recommendations, UIU and COW, have even greater differences with the Company. While the primary focus of this brief will be on the methodological differences between the Company and Staff, it will also address the differences between Staff and the intervenors. The brief will explain why Staff's recommendations should be adopted, and the opposing recommendations of the other parties should be rejected.

Staff's ROE recommendation of 8.7% is based on the results of its proxy group analysis, which is comprised of a 2/3 - 1/3 weighted average of the median Discounted Cash Flow (DCF) result of 8.19% and the average Capital Asset Pricing Model (CAPM) result of 9.64%, respectively (Exh. 256, p.3). Staff and the Company's ROE methodologies are similar; however they differ in critical details. The same may be said for the methods of UIU and COW, as all four parties' present DCF analyses and CAPM methodologies, and weight the results of the DCF 2/3 and the

¹⁹ The Company projected an issuance for August 2013.

CAPM 1/3, as the Commission prefers (Copeland Direct, pp. 43-44).

As explained in detail below, Staff presents a traditional cost of equity analysis that has been accepted by the Commission for many years, and as recently as the Commission's June 17, 2011, Order setting electric rates for Orange and Rockland Utilities, Inc. in Case 10-E-0362. By comparison, the Company predicates its inflated 10.1% ROE request on a slightly inferior proxy group, and numerous unreliable inputs, many of which the Commission has already expressed its dissatisfaction with in past cases.

Additionally, even though the proxy group used by the Company's witness has a lower average credit rating than Con Edison, just as Staff's, the Company argues that an upward adjustment to its ROE recommendation would be warranted due to the Company's alleged higher regulatory risk (Hevert Direct, p. 56). Staff's testimony addresses the Company's unsubstantiated claims with respect to its purported higher risks. Further, Staff demonstrates that its recommended 8.7% ROE, 48.00% common equity ratio, and depreciation and amortization figures would produce credit metrics generally consistent with its achieved results over the past ten years (Hevert Direct, pp. 56-57). Thus, the Company should be able to continue to attract capital on more favorable terms than its peers (Henry Direct, pp. 55-57).

Staff's recommended ROE of 8.7% is admittedly below the national average electric return on equity authorizations over the past ten years, which have generally been in the low 10.0%'s in recent years and have averaged about 10.47% (Exh. 260). However, as described by Company witness Hevert, it is important to consider that the authorized ROE afford the Company an opportunity to earn an ROE that is commensurate with the

return on equity for investments in other businesses having similar or comparable risks (Hevert Direct, p. 7). To that end, Staff asserts that its time-tested and Commission-accepted methodology produces just such a result.

Staff's ROE methodology in conjunction with the many credit-positive attributes of New York regulation has resulted in our utilities actually achieving modestly higher earned ROEs than their peers nationally (Exh. 272). Moreover, as explained below, the reasonableness of Staff's recommended ROE is also supported by the very low current interest rate environment, current investor expectations regarding growth opportunities in the electric utility industry as a whole, and the expectations of the Company's own investors.

Con Edison and Staff agree that interest rates are currently low in relative terms (See, Hevert Direct, p. 57; see also, Exh. 259 and Exh. 260). In fact, presently interest rates are significantly lower than when the Company's electric rates were established pursuant to a Joint Proposal (JP) entered into in November 2009 (Exh. 259). At that time, "A" rated utility debt was yielding about 5.64% (Exh. 259). As of April 2012, the most recent monthly data available at the time of Staff's filing, the average yield on "A" rated utility debt had fallen by over 160 basis points to 4.0% (Henry Direct, pp. 43-45).

Admittedly, interest rates have increased somewhat in the few months since Staff determined its recommended ROE. In relative terms, however, they remain historically low. As Staff's 8.7% ROE recommendation reflects the actual interest rate environment at the time its case was initially presented, Staff recommends that its methodology be used to update its ROE to reflect the actual interest rate environment at the time rates are to be set in these proceedings (Henry Direct, p. 57).

Staff's DCF model also firmly reflects the reasonable dividend growth expectations of investors. The 4.28% average sustainable growth rate of Staff's proxy group is essentially predicated upon the assumption of a long-run electric utility earned ROE of about 10.1%, together with a dividend payout ratio of about 61.5% (Exh. 256, p. 2). The resulting growth rate may be viewed as aggressive in comparison to the 9.79% average median earned ROE and 63.1% average median payout ratios of Staff's proxy group over the past ten years (Exh. 266).

i. Proxy Group

Staff, the Company, UIU and COW all use proxy groups to determine the Company's cost of equity. This is a nearly universal practice since the common stock of most utilities is not publicly traded. Rather, it is the common stock of the parent holding companies that are publicly traded and therefore must be used to perform market analyses. The use of a reasonably-sized group of proxy companies greatly diminishes the impact of any irregularities in any one company's data (Henry Direct, p. 12).

Company witness Hevert selected a proxy group of 32 companies whose individual and collective attributes are illustrated on page 3 of Exhibit 255. Mr. Hevert's selection criteria for his proxy group required that each company had to: (1) be classified as an electric utility by *Value Line*; (2) be covered by at least two utility industry equity analysts; (3) have investment grade credit ratings according to both Standard and Poor's (S&P) and Moody's Investors Service (Moody's); (4) pay dividends and have positive earnings growth projections; (5) have greater than 70% of total net operating income derived from regulated utility operations over the three most recently reported fiscal years; and, (6) not be involved in a merger and/or acquisition transaction (Hevert Direct, pp. 10, 11).

Even though his elaborate screening criteria resulted in a group of 34 companies, he eliminated Edison International due to the impact of recent losses incurred by its unregulated subsidiaries, and CEI (the Company's parent) due to his assertion that to use the parent would introduce circular logic (Hevert Direct, pp. 12, 13).

Staff utilized a proxy group with 35 companies whose individual and collective attributes are shown on page 2 of Exhibit 255. Each company: (1) is classified as an electric utility by *Value Line* and is not a transmission-only company; (2) is rated investment grade or better by both Moody's (Baa3 and above) and S&P (BBB- and above); (3) currently pays dividends; (4) receives over 70% of its revenue from regulated utility operations; and (5) is not involved in merger-related or corporate restructuring activities (Henry Direct, pp. 13-15).

UIU witness Copeland utilized the 34 company group that resulted from the screening criteria presented in Mr. Hevert's direct testimony, although unlike Mr. Hevert, he did not elect to exclude either Edison International or CEI (Copeland, D, pp. 29, 30).

Following his argument that the risks of electric and gas distribution services are different, COW witness King utilized two sets of proxy groups, one for the Company's electric operations and another for its gas operations (King, p. 3). Like Staff, he selected only those companies classified as an electric utility by *Value Line* and excluded ITC Holdings because it is exclusively a transmission company. He arrived at his 15 company electric-only proxy group based upon three screening criteria, which required that each company: (1) derive at least 40 percent of its revenue from electric utility service; (2) derive no more than 25 percent of its revenue from non-regulated activities; and (3) is rated within one grade,

plus or minus, of the A- rating assigned by S&P to Con Edison (King, p. 18).

In order to derive his nine company gas-only proxy group, Mr. King began with the eleven companies classified as gas distribution companies by *Value Line* and utilized only one screening criteria, that the company have no more than 33% of revenue from unregulated activities. In order to increase the size of his proxy group, he then added three combination electric and gas companies (classified as electric utilities by *Value Line*) that each derive at least 35% of their revenue from gas services (King, p. 20).

The characteristics of both Staff's and Company witness Hevert's proxy groups are not significantly different (Exh. 255). Both have average S&P bond ratings slightly weaker than BBB+ and average Moody's ratings somewhat stronger than Baa2. Given that Con Edison has an S&P rating of "A-" and a Moody's rating of "A3", both proxy groups are weaker than the Company's ratings by at least one credit notch. One of the principal reasons that the parent holding companies are generally viewed as greater credit risks than Con Edison is due to the presence of riskier, competitive businesses in their consolidated financial statements (Exh. 267, p. 2). While 100% of the Company's revenues are from regulated activities, the proxy group companies of Staff and the Company receive, on average about 10% and 12% of their revenues, respectively, from their riskier competitive operations (Exh. 255). Staff's proxy group consists of 35 companies whose risks are substantially similar to those faced by Con Edison. In selecting Staff's proxy group, Staff followed the same approach it has employed in prior rate cases, and has been endorsed by the Commission in each of the fully litigated rate cases of the

combination utilities over the past seven-plus years.²⁰ Staff acknowledges that it does not have major concerns with the composition of Mr. Hevert's proxy group because Mr. Hevert's selection criteria has evolved to the point that it is now similar to Staff's approach (Henry Direct, p. 59). Staff agrees with the observation of UIU witness Copeland that neither his 34 company group, Staff's 35 company group, nor the Company's 32 company group have significant differences in risk (Copeland R, pp. 3, 4).

While it could plausibly be argued that Mr. Hevert's proxy group may be employed to produce reasonable ROE estimates - provided of course that Staff's sustainable dividend discount model was also used - it is also likewise apparent that there would be little benefit to adopting his proxy group. Mr. Hevert has injected unnecessary subjectivity into his selection process by excluding two suitable surrogates, CEI and Edison International that met all of his detailed selection criteria (Henry Direct, pp. 59, 60). Although similar, Staff's proxy group is less subjective than that of the Company's.

Staff, the Company, and UIU all find serious flaws with the proxy groups recommended by COW witness King. Mr. King's electric utility proxy group consists of less than half the number of companies of those in the proxy groups of Staff, the Company, and UIU, and his gas proxy group is only comprised of nine companies (King, pp. 18-20). In general, a limited proxy group is not as statistically accurate, and causes individual abnormalities to skew the average results. As UIU witness Copeland correctly observes, using a separate proxy

²⁰ Case 05-E-1222, NYSEG- Electric Rates; Case 07-E-0523 Con Edison - Electric Rates; Case 08-E-0539, Con Edison - Electric Rates; Case 08-E-0887, Central Hudson - Electric Rates; Case 06-E-1433, O&R - Electric Rates; Case 07-E-0949, O&R - Electric Rates and Case 10-E-0050, National Grid - Electric Rates; Case 10-E-0362, O&R - Electric Rates.

group of gas distribution companies to estimate the cost of investing in the Company's gas utility assets is based on a false premise. Unlike investing in a gas distribution company, CEI's shareholders cannot invest directly in the gas utility assets of the Company. Their only investment opportunity is to purchase the shares of CEI's publicly traded stock (Copeland R, pp. 4, 5). Therefore, any comparison of Con Edison to a strictly gas utility is inconsequential.

The majority of the holding companies in Staff's proxy group also have gas operations in addition to their core electric businesses. Therefore, Staff's proxy group analyses necessarily incorporate the risks of those companies' gas businesses along with the risks inherent in their electric operations and non-regulated activities. Because Staff's proxy group consists of a surrogate group of companies whose aggregate risks closely match those of New York's combination utilities, Staff's proxy group has repeatedly been adopted by the Commission (Henry R, p. 10).

ii. DCF

Staff's two-stage DCF model explicitly recognizes that short-term growth does not necessarily equal long-term growth expectations. The first stage uses near-term analyst estimates to derive a growth rate, while the second stage is based on a calculation of a sustainable growth rate (Henry Direct, pp. 24, 25). This data is used to estimate the dividends that can be expected for each company in the future, then calculate the discount rate (return) required to turn the string of expected dividend payments into the current stock price (Henry Direct, p. 24).

Given the prominence of the DCF methodology in cost of equity determinations, and the fact that the current dividend and dividend yields of proxy group companies are readily

quantifiable, the most critical element of this approach is the assumed dividend growth rate. Since this element may dramatically impact the outcome of the company's cost of equity, the dividend growth rate is often highly disputed; the present case is no exception.

Staff presented virtually the same DCF analysis the Commission has accepted in all fully-litigated electric and gas combination rate proceedings over the past seven-plus years²¹. Staff's methodology is predicated largely upon the concept of sustainable growth that has been favored by the New York Commission for decades. By contrast, the Company's DCF analyses incorporate excessive growth rates that are inconsistent with the overall economy.

The 4.28% average sustainable growth rate of Staff's proxy group is largely a product of the proxy group companies, over the long-run, earning an average return on common equity of approximately 10.1% and paying-out about 61.5% of those earnings in annual dividends (Exh. 256, p. 2). The assumed average earned ROE is reasonable given it approximates the 9.79% average median earned ROE for the proxy group companies over the past decade. Additionally, the assumed payout ratio is conservative when compared with Mr. Hevert's assumption of a long-run payout ratio of 66.7%, which he based upon average median industry payout ratios since 1990 (Hevert Direct, p. 34). Moreover, Staff's 4.28% sustainable growth rate is modestly and reasonably lower than the 4.6% long-range (through 2024, the most distant period forecast) consensus growth rate in Nominal GDP, according to the March 10, 2013 edition of *Blue Chip Economic Indicators* (Exh. 257). Given that Real GDP (Nominal GDP adjusted for inflation) growth has averaged about 2.86% over

²¹ Id.

the past 30 years while annual electricity sales growth has only been around 1.94% (Exh. 257), it is not unreasonable to assume that a mature industry like the utility industry would grow over the long run at a rate somewhat slower than the economy as a whole (Henry Direct, pp. 71, 72). Indeed, this has been the case over the past 30 years (Exh. 267, p. 21).

a. Company's DCF Methodologies

In both his direct and rebuttal testimonies Mr. Hevert conducted two DCF analyses, one a two-stage DCF model somewhat similar to Staff's and a three-stage version as well. His rebuttal analyses, which produced a two-stage DCF result of 9.87% and a three-stage result of 9.80%, followed the same form as the analyses contained in his initial testimony (See, Exh. 33). Therefore, his analyses appear to vary only as a result of updated data. In his rebuttal analyses, Mr. Hevert projects dividends using the average of *Zacks*, *Value Line* and *Thomson First Call* earnings growth rate estimates through 2017, or the near term, and *Value Line* projected payout ratios (Hevert Direct, pp. 22-24). Beginning in 2018, both the two-stage and three-stage models assume that the earnings of the proxy group companies will grow at a rate equal to what Mr. Hevert calculates is the projected nominal GDP (Hevert Direct, p. 28). Furthermore, both models assume that the individual payout ratios will revert to 66.67%, the ratio Mr. Hevert professes to be the industry long-term norm (Hevert Direct, p. 34).

In the case of the two stage model, the transition from the *Value Line* projected 2017 payout ratio of each of the individual companies in Mr. Hevert's proxy group to his assumed 66.67% long-term norm ratio occurs at once in 2018. In his three-stage model he smoothes this transition over a five year period. All subsequent dividends are assumed to grow at Mr.

Hevert's 5.79% projected nominal GDP growth rate (Hevert Direct, pp. 22-24).

Rather than relying on *Value Line* dividend growth projections in conjunction with their forecasted payout ratios as Staff has done, Mr. Hevert asserts that his use of multiple sources for earnings growth estimates is superior. He states it mitigates any potential bias that might be introduced by relying solely on *Value Line* estimates (Hevert Direct, pp. 21, 22). However, Mr. Hevert fails to provide any evidence that exclusive reliance upon *Value Line* estimates is unreliable. The Commission has relied upon *Value Line* for many years. (Henry Direct, p. 65). Following precedent in New York State, investors can expect the use of *Value Line* dividend growth estimates; continuing its usage creates transparency in the market.

Staff also finds fault with the fact that Mr. Hevert's near-term dividend projections are a direct product of the average earnings growth estimates of three different publications, but uses the projected payout policies of *Value Line* alone. As a consequence, they are inherently mismatched and should not be relied upon by the Commission (Henry Direct, p. 66).

The most problematic aspect of Mr. Hevert's DCF methodologies is his use of an inflated long-run dividend growth rate of 5.79%. This is predicated upon his excessive estimate of long-run nominal Gross Domestic Product (GDP) growth. Mr. Hevert calculated this rate by adding the 3.24% real GDP growth rate from 1929 through 2011, and his calculation of an expected inflation rate of 2.47% (Hevert Direct, p. 28). Both of these components are flawed. Mr. Hevert's 2.47% expected inflation rate is inappropriate because of his reliance on expected price changes in CPI. Use of the CPI is

inappropriate because, unlike the GDP deflator, the CPI does not measure inflation over the entire economy (Henry Direct, p. 68). His use of the 3.24% historical real GDP growth rate from 1929 through 2011 is inappropriate because historical averages, while instructive, are simply poor indicators of future economic activity.

A much more reasonable measure of expected future growth can be found in the March 10, 2013 edition of the *Long-Range Consensus U.S. Economic Projections* provided by *Blue Chip Economic Indicators* (Exh. 257). *Blue Chip* compiles the views of fifty of the financial community's most prominent economists to formulate a consensus regarding numerous economic variables, including projections of future growth rates, which are formulated by building upon historical trends and, critically, by taking into account current economic conditions (Henry Direct, p. 69). Given how much lower the 4.6% long-run nominal GDP growth rate of *Blue Chip's* consensus is than Mr. Hevert's 5.79% growth estimate, it is abundantly clear that the results of his DCF analyses are significantly upwardly biased. The inconsistency of such excessive growth rates is best illustrated by exposing the unrealistic underpinnings of the Company's multi-stage DCF models. In them, Mr. Hevert assumes that his proxy group companies will realize long run dividend growth of 5.79% while maintaining a payout ratio of 66.7%. In order for the industry to maintain a long-run growth rate of 5.79%, while at the same time retaining only 33.33% of its annual earnings, the industry would have to achieve an improbable annual return on the average book value of its common equity of 17.37% (Henry Direct, pp. 73, 74). Given the industry's high historical payout ratios, together with the fact that the average authorized ROE for the past 20 years has only been about 10.9% (Exh. 260), it is extremely difficult to

imagine how a rational investor would conceive of a long-run growth rate anywhere near as high as Mr. Hevert's 5.79%.

b. Staff's DCF Methodology

In concert with the Commission's methodology in past cases,²² Staff employed a DCF model that recognizes that short-term investor expectations do not necessarily equal long-term expectations. Staff used a two-stage growth DCF methodology which uses short and long-term growth estimates for dividends, and then solves for the discount rate that equates the current stock price to the stream of all future dividends. This discount rate is the cost of equity. The Staff model relies upon a three-month average stock price and *Value Line* data for dividends per share, earnings per share, book value per share, and the common shares outstanding for each company in the proxy group (Henry Direct, pp. 24, 25).

The short-term growth rate was based on *Value Line* analysts' expectations of dividends over the next five years. The long-term, or sustainable, growth rate is based upon each company's forecasted retention of earnings and their growth in common stock balances. The average sustainable growth rate of the proxy group is 4.28%, (Exh. 256, bottom of page 2, in the column labeled "W"). This is modestly lower than the consensus long-range estimate of nominal GDP growth rate of 4.6% for the most distant period forecast, 2020-2024, published in the March 10, 2013 edition of *Blue Chip Economic Indicators* (Henry Direct, p. 26).

Staff notes that the 4.6% nominal GDP growth rate estimate itself is comprised of two components: Real GDP growth

²² Case 05-E-1222, NYSEG- Electric Rates; Case 07-E-0523 Con Edison - Electric Rates; Case 08-E-0539, Con Edison - Electric Rates; Case 08-E-0887, Central Hudson - Electric Rates; Case 06-E-1433, O&R - Electric Rates; Case 07-E-0949, O&R - Electric Rates; Case 10-E-0050, National Grid - Electric Rates, and Case 10-E-0362, O&R - Electric Rates.

of 2.5% and an inflation rate of 2.1%. Comparing Staff's sustainable growth estimate to the nominal GDP growth estimate is appropriate because it is not unreasonable for investors in the market as a whole to expect their future dividends to generally keep pace with overall inflation, as well as to reflect productivity gains similar to those expected for the economy as a whole (Henry Direct, 26-27). Company witness Hevert concurs with Staff, citing page 64 of Morningstar, Inc.'s *Ibbotson SBBI 2012 Inflation valuation Yearbook*, which states that "...historically, the growth in corporate earnings has been in line with the growth of the overall economy (Hevert R, pp. 49-50).

In its rebuttal testimony, the Company rejects Staff's representation of *Blue Chip Economic Indicators 2020-2024* estimate of nominal GDP growth as indicative of investors' long-run growth expectations, describing it as short term in nature (Hevert R, p. 32). However, upon cross-examination, Mr. Hevert conceded that, as illustrated on page 92 of the U.S. Energy Information Administration's (EIA) April 2013 *Annual Energy Outlook 2013* (Exh. 270), all nine respected sources that forecast annual real GDP growth from 2011-2040, range from 2.4% to 2.6% (Tr. pp. 148, 149).

For investors in a mature sector of the economy such as the utility industry with slower-than-average growth prospects, it is not unreasonable to expect future dividend growth to be slower than that of the overall economy (Henry Direct, p. 27). With respect to the reasons for the utility industry's slower-than-average growth prospects, UIU witness Copeland asserts that the long term growth rates for utilities may be even more than modestly lower than the growth rate in the overall economy because: (1) utilities are less risky, and thus over time will have a lower ROE, and (2) utilities traditionally

pay out more of their earnings as dividends, reducing the earnings available for growth (Copeland R, pp. 9, 10).

Staff's DCF methodology results in a cost of equity of 8.19% as shown on page 3 of Exhibit 256. The Commission should update this calculation to reflect the most current market data and should incorporate the results of this DCF methodology when setting Con Edison's return. As we have discussed, Staff's application of the DCF methodology has been used by the Commission in many recently litigated rate cases, because it recognizes that short-term expectations may not be sustainable in the long-term, and it uses actual investor behavior to calculate its ROE estimate.

iii. CAPM

Like Staff, the Company uses two CAPM methodologies, the "traditional" CAPM and "zero-beta" CAPM. Unfortunately, each of the three critical inputs of Mr. Hevert's CAPM formulas is seriously flawed and results in an overstated cost of equity recommendation. The traditional CAPM methodology calculates a required return based on three inputs: The rate of return on a risk-free investment (R_f), the level of systematic risk for an investment (B , known as "beta"), and the expected market risk premium (R_p or MRP) (Hevert Direct, pp. 35-36). The MRP is the amount the stock market, as a whole, is expected to return above the risk-free rate (see, Exh. 441 and Exh. 35). The calculation can be represented as:

$$\text{Required Return} = R_f + (B * R_p)$$

The zero-beta CAPM uses the same inputs; it only differs from the traditional model in that it essentially holds half of the assumed risk premium to be constant.

For the risk-free rate (R_f) in his rebuttal analyses, Mr. Hevert used 3.07%, presumably the most recent three-month average yield on 30-year Treasury bonds when his testimony was prepared (Exh. 34). Mr. Hevert argues that the term of Treasury security used to establish the risk-free rate should match the life of the underlying investment, not the holding period of the investor (Hevert Direct, p. 39). Mr. Hevert states that because utility companies represent long-duration investments, it is appropriate to use yields on long-term Treasury bonds as the risk-free rate component of the CAPM, and that the 30-year Treasury bond is appropriate (Hevert Direct, p. 40).

However, in its 2011 National Grid electric Order, the Commission stated, "We have consistently used the average of the 10-year and the 30-year bonds and we find no clear or convincing reasons for altering the established practice or to shift to a 'long-term' measure that fixes the holding period at 30 years" (Order 10-E-0050 p. 79). Using only 30-year bond yields to estimate the risk-free rate does not accurately capture the time frame of an investor because not all investors consider holding a stock for 30 years.

Turning to beta, or the correlation of the return of a common stock to the market, Mr. Hevert utilized three different beta determinations, .705, .702, and .704 within each of his CAPM methodologies (Exh. 34). The sources of the first two average betas of his proxy group companies were *Value Line* and *Bloomberg*. For his third beta calculation of .704, he took the covariance of the proxy group's mean weekly returns and the S&P 500's weekly returns over the past 12 months and adjusted it using *Bloomberg's* methodology of multiplying the raw beta coefficient by .67 and then adding .33 (Hevert Direct, p. 42). Mr. Hevert's first beta determination, which utilizes *Value Line* betas, just as the Commission has always done, is reasonable.

One of the principal reasons that the Commission has consistently utilized *Value Line* betas is that they are calculated over a five year period, thereby mitigating the inherent volatility of using beta estimates calculated over shorter time periods (Henry Direct, p. 77). Mr. Hevert uses *Bloomberg* for a second beta determination, which is calculated over a two-year period (Hevert Direct, p. 41). He then creates a third beta determination which is calculated over a 12-month period (Hevert Direct, p. 43). While all coincidentally close, the use of shorter term betas are problematic because they cannot consistently produce reliable results over the long-run (Hevert Direct, p. 38).

As the Commission noted in its Order in Case 10-E-0362, Orange and Rockland - Electric Rates, "any alteration in this method should be done in a manner that avoids increasing the volatility of the CAPM" (Order 10-E-0362 p. 77). By incorporating beta measurements calculated over such relatively short time periods, Mr. Hevert has once again introduced the potential of unwarranted volatility into the beta component of the CAPM. Due to this unreliability, his methodology should be rejected.

In order to estimate the expected MRP in his direct testimony, Mr. Hevert first estimated the required market return and calculated the MRP by subtracting the assumed risk free rate from the required market return (Hevert Direct, p. 40; see also, Exh. 441). Similar to Staff, Mr. Hevert relied on an *ex-ante* analysis. However, Mr. Hevert used two sources to conduct his forward-looking analysis of the S&P 500 (Hevert Direct, p. 40). To derive his two expected market returns, he performed constant growth DCF calculations for all the companies in the index based on market capitalization-weighted growth rates and dividend yields (Hevert Direct, p. 40). One approach relied on

Bloomberg's consensus three-to-five year earnings growth estimates and the other relied on consensus estimates provided by *Capital IQ* (Hevert Direct, p. 40).

Staff notes that both approaches appear to employ near term growth rates of about 10.58%, expected yields of about 2.43% and result in estimated market returns of 13.01%. By subtracting his risk free rate of 2.86% from these estimated market returns, he calculated MRPs of approximately 10.15% (Henry Direct, p. 80).

In the update reflected in his rebuttal testimony, Mr. Hevert appears to substitute his *Capital IQ*-derived *ex-ante* analysis of the S&P 500 with one utilizing *Value Line's* consensus three-to-five year earnings growth estimates. According to Mr. Hevert, he calculated an MRP of 9.77% based upon the difference of what he describes as *Value Line's* estimated market return of 12.84% and his updated risk free rate of 3.07% (Hevert R, p. 71).

The overwhelming problem with his MRP approach is that each of his three analyses relies entirely upon a constant growth DCF analysis of the S&P 500. The basic assumption underlying the constant growth model is that the reported earnings growth rate estimates for the next three-to-five years from *Bloomberg*, *Capital IQ*, or *Value Line* will last until perpetuity. This is an unreasonable assumption. Staff's *ex-ante* estimate of the required return of the S&P 500, provided by *Merrill Lynch's* multi-stage DCF-derived required return, does not make this unrealistic assumption. Thus, Staff's method produces a much more reliable estimate of the estimated market return (Henry Direct, p. 81). Staff strongly urges that the Judges reject the Company's CAPM analyses, in particular the unrealistic estimated market returns utilized in its MRP determination.

b. Staff's CAPM Methodologies

Staff and Con Edison both employed "traditional" and "zero-beta" methods, however, Staff used different inputs than the Company. Staff's risk-free rate is the average of 10- and 30-year Treasury bond yields. For the three months ended April 2013, that rate was 2.49% (Exh. 256, p. 3). Staff utilized *Value Line* for estimating beta and did not need to make any adjustments because *Value Line* adjusts for the long-term tendency for beta to converge towards 1.0. A beta of 0.70 is used (Exh. 256, p. 3).

As is often the case with the CAPM methodology, the major difference between the Company and Staff concerns the appropriate MRP to be used. Staff used the market return estimate provided by Merrill Lynch as published in its monthly *Quantitative Profiles*, which is a reliable, public, and respected source (Henry Direct, p. 34). This report uses a multi-stage dividend discount model ("Implied Return") and a CAPM model ("Required Return") to calculate an expected return for the S&P 500 each month (*see generally*, Henry Direct, p. 81). The risk-free rate is then subtracted from the market return estimate to arrive at the MRP (Henry Direct, pp. 34-35). The three-month average market return estimate at April 2013 is 12.18% (Exh. 256, p. 3). Subtracting our 2.49% risk-free rate results in a MRP of 9.69%. This method of calculating an MRP has been used by the Commission in several cases, most recently in Case 10-E-0362.

Using the inputs described, Staff calculated a traditional CAPM result of 9.27% and a zero-beta CAPM result of 10.00%. The average is 9.64%, and this return was used by Staff to determine its overall ROE recommendation (Exh. 256, p. 3).

Staff recommends the adoption of this CAPM methodology when determining the appropriate ROE to use in the calculation of Con

Edison's overall cost of capital. The inputs for the MRP, the risk-free rate and beta used by Staff follow the same time-tested approach that the Commission has repeatedly found reasonable. Staff's methods should all be adopted.

iv. Adjustment to ROE

a. Financial and Business Risk Differentials

S&P and Moody's regularly assess the full breadth of risks facing the utilities they rate; hence the combined effect of all the business and financial risks faced by those utilities are incorporated into the credit ratings they assign (Henry Direct, p. 41). As noted by Company witness Sanders, Con Edison's S&P and Moody's senior unsecured debt ratings are "A-" and "A3," respectively, and both have stable outlooks (Sanders Direct, p. 25).²³ The comparable average credit ratings of Staff's and Company witness Hevert's proxy groups are materially weaker. As illustrated in Exhibit 255, both have average S&P ratings slightly weaker than "BBB+" and average Moody's ratings somewhat stronger than "Baa2."

One of the fundamental tenets of financial theory is that the return on a given investment be commensurate with its particular level of risk. Despite this rule, Staff did not recommend a downward adjustment to its proxy group's cost of equity to reflect Con Edison's inarguably stronger risk profile. Staff was unable to find objective evidence indicating that material differences exist in the return requirements of investors within the relatively narrow band of investment grade utilities (Henry Direct, p. 42). However, given the irrefutable evidence that the Company's collective business and financial risks are less than those of either Staff's or Mr. Hevert's proxy groups, there is no credible evidence to support an upward

²³ Effective July 30, 2013, Moody's revised the Company's outlook upward from "Stable" to "Positive."

ROE adjustment based upon any of the reasons raised by Company witnesses Sanders, Hevert and Lapson.

Company witness Hevert suggests that the mean results of his proxy group analyses do not necessarily provide an appropriate estimate of the Company's ROE. In his opinion three additional factors should be considered: (1) the Company's extensive capital expenditure plans; (2) the Company's ability to earn its authorized ROE and generate sufficient cash flow while facing possible disallowances of costs and performance-related penalties; and (3) the regulatory environment of the Company relative to its proxy group peers (Hevert Direct, p. 51).

With respect to the capital intensive nature of the utility industry, Company witness Sanders contends that one of Con Edison's primary challenges arises from the fact that its depreciation rates are low relative to its ongoing capital expenditure programs. He contends that one of the principle effects of this dynamic is that not only have the Company's cash flow metrics been weak for quite some time, but they will remain so (Sanders Direct, pp. 18, 19). Company witness Lapson concurs, stating that Con Edison's cash flow tends to be weaker than that of peer utilities (Lapson Direct, p. 41).

As illustrated in Exhibit 266, the Company's arguments are misleading. Staff agrees that the Company's depreciation recoveries were weaker than its peers in the earlier part of the decade. However, it is also true that the recent differences in recovery rates are far less pronounced. In 2012 the 50.0% rate achieved by the Company even exceeded the 48.2% median recovery of its peers (Henry Direct, p. 87). With respect to the Company's ability to generate sufficient amounts of cash flow to meet its interest requirements, Staff also demonstrated that Con Edison has outperformed its peers. Exhibit 266 shows that the

Company's three-, five- and ten-year average EBITDA Interest Coverage ratios all exceeded the median ratios achieved by Staff's proxy group over each of those time periods (Henry Direct, p. 88).

Upon review of Mr. Hevert's second factor; citing Company witness Sanders stating that because of the existence of penalty-only mechanisms, an absence of any meaningful positive incentives, austerity adjustments, and one-way true-ups of costs, the ability of New York utilities to actually earn their low authorized ROEs is severely hindered (Hevert Direct, p. 51; Sanders Direct, pp. 39, 40). These claims are unmerited. While New York's 9.65% average median authorized electric ROE from 2003 - 2012 was indeed below the 10.46% average authorized electric ROE nationally during that time period, the average median national earned ROE of 9.82% was well below authorized levels (Exh. 272). New York's 10.05% median earned ROE over the past ten years was roughly 40 basis points higher than the authorized levels. Moreover, New York's 10.05% median earned ROE exceeded the 9.82% average median national earned ROE as well.

With respect to Mr. Hevert's third factor to consider in his ROE analysis, he cites jurisdictional rankings developed by S&P and Regulatory Research Associates (RRA) (Hevert Direct, pp. 54-56). Additionally he cites the testimony of Company witness Lapson, who states that Moody's "Baa" explicit letter-grade ratings of the Company's "Regulatory Framework Assessment" and "Ability to Recover Costs" ratings components are indicators of New York's challenging regulatory environment (Hevert Direct, pp. 54-56 and Lapson Direct, p. 34). Mr. Hevert states that New York is currently rated "Average 3" by RRA which he describes is in the bottom half of all ratings and only one notch above a "below average" ranking (Hevert Direct, p. 55). During cross

examination, however, when shown RRA's April 16th 2013 report of state regulatory evaluations (Exh. 781), Mr. Hevert conceded that New York State was upgraded from "Average 3" to "Average 2", which places it right in the middle of RRA's rankings (Tr. 154).

Moody's view of New York's regulatory climate, as cited by Company witness Lapson, does not comport with her views regarding New York's superior risk-reducing elements. More specifically, in her testimony, she rejects how "the PSC has in some cases argued that their below-average ROE determinations must be viewed in the context of the superior risk-reducing elements that are typically incorporated in the NYPSC-approved rate plans" (Lapson Direct, pp. 57-58).

While Ms. Lapson may not find any "evidence that New York's rate mechanisms are better than average (Lapson Direct, p. 58), Moody's, in its July 31, 2013 Credit Opinion certainly appears to have done so (Exh. 972, p. 2). Specifically, Moody's notes that, since the Company's 2009 downgrade, "the regulatory scheme in New York State has been consistent and mostly credit-positive." Moody's further mentions the risk-reducing attributes afforded by the use of future test years and full revenue decoupling. Moody's also notes that the Company is essentially a transmission and distribution utility, which Moody's considers to have lower business risk than vertically integrated utilities. As a result of this very recent review, Moody's raised the Company's explicit letter grade ratings of the two ratings components cited by Ms. Lapson (Lapson Direct, p. 34). Specifically, Moody's raised both the "Regulatory Framework" and the "Ability to Recover Costs and Earn Returns" components of the Company's overall ratings assessment from the "Baa" to "A" (Exh. 972, p. 4).

c. Flotation Costs

In the update reflected in his rebuttal testimony, Company witness Hevert appears to be adding 7 basis points to his 10.03% weighted DCF and CAPM results in order to reflect an adjustment for flotation costs (Hevert R, p. 125). In his direct testimony, he acknowledges that he is aware of Commission policy "to allow recovery of forecast common equity issuance expenses when they are reasonably expected to be incurred during the rate case." (Hevert Direct, p. 46, *citing*, Prepared Testimony of Finance Panel, Case 09-E-0428, at 88). In support of his flotation cost adjustment, however, Mr. Hevert argues that because a portion of the Company's past rate cases have been settled or included multi-year rate plans, it is unclear whether those costs have been fully recovered (Hevert, Direct, p. 46).

Since the Company is not proposing to issue any common equity during the rate year, no adjustment to the cost of equity is necessary (Henry Direct, p. 43). In the past the Commission has properly rejected adjustments to the recovery of issuance expenses associated with past issuances. For example, in its Order in Case 06-E-1433, the Commission stated, "The Company's attempt to reach back to past issuances is supported only by a hypothetical statement that such costs may not have been collected, rather than any proof to that effect" (Orange and Rockland, Order Setting Permanent Rates, Reconciling Overpayments During Temporary Rate Period, and Establishing Disposition of Property Tax Refunds [Issued Oct.18, 2007] p. 15). Staff's recommended approach for common equity issuance expenses is the same approach that was adopted by the Commission in the Orange and Rockland rate order. We recommend that the Commission adopt our non-adjustment here as well.

IX. Rate Base

a. Electric Capital

Con Edison's proposed electric capital budget for calendar years 2014 to 2016 is presented in the Company's direct testimony and exhibits. The Company's "white papers" provide the work description and justification for the budgets' line items. We conducted an extensive analysis of Con Edison's line items presented in the Company's pre-filed testimony's exhibits. Historical budgets were compared to historical expenditures. Adjustments were then made to reflect Staff's forecasted expense levels for each line item.

The comparison of historical budgeted expenses and actual expenses is a method to measure how well the Company executes its capital programs. Our objective is to make recommendations to the Commission that correctly reflect, as closely as possible, the reasonable costs of the Company's capital programs. Application of this measurement of actual performance to planned performance to the Company's proposed budget results in a reasonable guide to what the Company will most likely expend in the rate year.

There are several programs and projects we have determined have been historically under spent by Con Edison. We believe, in addition to the project or program specific arguments provided in our direct testimony, Con Edison's historic spending compared to its overall transmission and distribution budget should also be considered to support our adjustments.

The table below shows Con Edison's budget and actual capital expenditures for transmission, substation operations and distribution for fiscal years 2008 through 2012, as derived from the Company's response to DPS-62 (Exhibit 242). The table shows that the Company under-spent its T&D capital expenditure budget

in each of the last five fiscal years. On average, the annual under-spend for FY 2008 through FY 2012 was approximately \$49.4 million, which is more than our total recommended adjustment of approximately \$38 million for rate year 2014. Consequently, our adjustments are reasonable and should be approved by the Commission.

Con Edison's T&D Capital Expenditures (\$000)

	Budget	Actual	Variance	% Underspend
FY08	\$ 1,637,685	\$1,538,838	\$ (98,847)	-6%
FY09	\$ 1,448,567	\$1,398,683	\$ (49,884)	-3%
FY10	\$ 1,200,000	\$1,187,733	\$ (12,267)	-1%
FY11	\$ 1,122,944	\$1,070,887	\$ (52,057)	-5%
FY12	\$ 1,110,209	\$1,076,228	\$ (33,981)	-3%
Total	\$ 6,519,405	\$6,272,368	\$ (247,037)	-4%

i. Emergent Transmission Reliability

In its direct testimony, Con Edison proposed to spend \$9.5 million annually for 2014, 2015 and 2016 on the Emergent Transmission Reliability Program (CE IIP Direct, p. 212). Staff recommended \$5.5 million annually for 2014, 2015 and 2016 based on average annual historical spending of \$4.4 million over the 5-year period FY2008 through FY 2012 (Staff SEIIP Direct, p. 60). The Company did not address our adjustment in its rebuttal testimony. Our recommended \$4 million annual adjustment is reasonable and should be approved by the Commission.

ii. Area Substation Reliability

For the Area Substation Reliability and Auto Ground Circuit program, Con Edison proposed a budget of \$11.4 million, \$11.3 million and \$11.4 million for 2014, 2015 and 2016, respectively. This program provides for the installation of two

independent lines of protracted fault protection with electrical and physical separation for the area station transformers (IIP Direct, pp. 181-186). The Commission should determine a funding level of \$8.5 million annually for 2014 to 2016, based on the average spending between 2009 and 2012 (SEIIP Direct, pp. 63-65).

Con Edison rejects Staff's recommended funding level because the Company believes its lower actual historical spending is primarily the result of slowed work progress, resource availability, and outage delays. The Company also claims that we are incorrect in our belief that these hindrances would likely continue (IIP U/R, pp. 43-46). We stand by our testimony. The Company plans to replace approximately six and seven switches in 2013 and 2014, respectively. Three switches that were scheduled for 2013 have been cancelled and none have been replaced to date. Additionally, more than a dozen switches have not been scheduled (Exhibit 242, pp. 1-5). Given that the resource availability and the delays in installation work would likely continue, we don't believe that Con Edison can achieve its proposed replacement levels. The Commission should determine a funding level of \$8.5 million annually for 2014-2016, based on the average spending between 2009 and 2012 (SEIIP, pp. 64-65).

iii. Facility Improvement Program

For its Facility Improvements program, the Company initially proposed a capital budget of \$6.6 million annually for the rate years 2014 through 2016 (CE IIP Direct, p. 303). This is a recurring annual program used to fund structural and yard improvements and upgrades at the Company's Substation's Operations facilities and locations. The program funds larger scale projects not covered by other capital programs, pursuing

work such as façade, foundation, drainage, HVAC, lighting, plumbing, paving, fencing, etc.

We determined that the Company has historically under-spent its program budget over the previous five years by a margin of approximately -31%, with an actual five year average spend of approximately \$4.2 million (Staff SEIIP Direct, pp. 76-77). Therefore, we recommend the Commission determine an allowance of \$5 million annually for the program, with a \$1.6 million annual adjustment for the rate years 2014 through 2016 (Staff SEIIP Direct, p. 77).

In rebuttal, the Company disagreed with Staff's adjustments, stating that Staff had looked to the past in an effort to predict the future for this program (CE IIP Rebuttal, p. 52). Con Edison also argued that Staff's adjustment was based on data which reflected reduced spending resulting from projects that were delayed while Con Edison sought lower cost alternatives (CE IIP Rebuttal, p. 52). In addition, Con Edison stated that it provided us with a list of candidate projects which the Company will be pursuing under this program totaling over \$17 million. This candidate project list shows individual projects the Company has identified at different locations and cost estimates to complete those projects.

These arguments do not sway our opinion on the program. The types of projects completed under this program are pursued on a discretionary basis, considering timing, need, and resource availability. Only a select number of the projects from the Company's candidate list are completed in any given year. This leads us to believe that the program should be adjusted based on past performance and historic spending. Staff's adjustments were made based primarily on the Company's five year historic under spending in the program. Reduced spending due to seeking lower cost alternatives did not affect

Staff's adjustment. Additionally, the Company stated that it plans to reduce its budget in 2013 for this program from \$6.6 million to \$4.5 million due to reprioritization of projects to account for storm hardening expenditures (Exhibit 874, p. 3). This further suggests that the spending for this program is discretionary and that the level Staff has recommended is adequate.

iv. High Voltage Test Sets

While Staff is not addressing "High Voltage Test Sets" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

v. Roof Replacement Program

For the Roof Replacement Program, Con Edison proposes a budget of \$3 million annually in 2014 and 2015, and \$3.3 million annually in 2016 and 2017. According to the Company, the roof replacement program covers the cost of needed roof repairs and replacements as identified by the roof inspection program so that degraded conditions can be addressed in a timely manner; thereby precluding significant water intrusion (IIP Direct, pp. 189-190). We recommend that the Commission determine an annual funding level of \$1.5 million for 2014-2016. As stated previously, our recommended adjustments for these projects are based on historic spending levels (SEIIP Direct, pp. 68-69). Based on the Company's response to DPS-62 (Exhibit 242, pp. 24-40), the Company has under spent their program budget for each year except 2010, from 2007 to 2012. During these years, on average, this program had a budget of \$2.4 million and actual spending was \$1.4 million.

The Company rejected our recommended funding level because the \$3 million request is based on going forward work plans to address the reliability concerns raised by leaking

roofs (IIP U/R, pp. 53-54). NYC believes that if the Company's need for roof replacement is genuine, then Staff's approach of reducing their budget seems illogical, and the funding should be provided. The City also believes that Staff has missed the overarching point that replacing roofs does not address the root cause of the roof replacement. It is possible there is inadequate maintenance, poor design, or poor construction of roofs that needs to be addressed (EIP Rebuttal, p. 14).

The City noted that Staff's concerns in a number of categories of both capital and O&M, the Company's actual expenditures have been under-budget, sometimes substantially; and that Staff's response in each case was to cut the budget. The City believes that this response is inadequate, but also notes that NYC is not defending the Company's projects or proposals. NYC goes on to state that given the size and complexity of the Company's electric infrastructure, it is difficult to believe that continual under spending in both capital investments and maintenance activities is consistent with good utility practice (EIP Rebuttal, pp. 19-20). As discussed below, our adjustments based on historic spending levels should be adopted.

Staff's historical cost adjustment was based on a review of the Company's response to DPS-62 (Exhibit 242, pp. 24-40), which included forecasted budgets and actual expenditures. Staff believes that the historical figures showing that the Company has under spent its budget are enough reason to employ a reduction in the Company's proposed budget. The objective is to recommend just and reasonable rates for the carrying costs, operational and maintenance, and depreciation of assets needed to provide safe and adequate service. Since rates are set by the Commission prior to the expenses being incurred, any recommendation must be based on a forecast of those costs. In

order for the rates to be just and reasonable, the forecasts need to be as accurate as possible. In fact, based on historical performance, Con Edison's budget unadjusted would result in ratepayers paying in excess of what the Company actually expends.

vi. Transformer Replacement Program

Concerning the Transformer Replacement Program, the Company budgeted approximately \$25.9 million, \$25.4 million and \$25.3 million for 2014, 2015 and 2016, respectively. Under this program, transformers are replaced based on their operating conditions and risk of failure. The budget for this program also includes installation of a moat system for the vault, a fire protection system, and a transformer condition monitoring system (Exhibit 495, pp. 104-106). We recommend that the Commission determine an annual funding level of \$20 million for 2014, 2015, and 2016 (SEIIP Direct, pp. 61-63).

Con Edison rebutted this adjustment and stated our recommended funding level of \$20 million per year would reduce the opportunity to schedule larger replacement projects, given the average cost to replace a typical substation transformer varies between \$6 million and \$15 million. The requested budget of approximately \$25.9 million would provide flexibility to replace up to three units per year. The budget level proposed by Staff allows for replacement of just one or two units per year, since the Company cannot partially fund a planned replacement and that the reduced number of units to be replaced will result in additional aging of an already old transformer fleet.

In NYC's rebuttal testimony, it claims that Staff's recommendation does not make sense considering Con Edison's cost to replace an area and transmission substation transformer is \$14 million and \$20 million, respectively. The City also noted

that the Company recommended specific units for replacement (EIP Rebuttal pp. 13-14).

According to the Company's response to DPS-62 (Exhibit 242, pp. 24-40), it has under achieved its budgeted amounts in the last four years. The average yearly expenditure for those four years is \$14.8 million, \$10.7 million less per year than what is proposed (Exhibit 495). Since 2009, the Company has under spent funding levels each year compared to the budget. In responses to DPS-37 (Exhibit 242, pp. 6-23) and DPS-656 (Exhibit 242, pp. 338-340), Con Edison claims that the under spending occurred because of varying system outage constraints, variations in cash flow payments, and delays in construction work. However, based on the Company's reply to DPS-37, Con Edison's actual expenditures for this particular program have been under-budget, on average by \$6.7 million from 2009 to 2012.

vii. Failed Transformer Program

On page 272 of its direct testimony, Con Edison's IIP proposed to combine the funding for the Transmission Feeder Failures program, the Failed Transformer program, and the Failed Equipment other than Transformers program. We supported this proposal (Staff SEIIP Direct, p. 70). Exhibit 492 shows that the Company proposes to spend approximately \$32.92 million, \$33.016 million and \$32.779 million for 2014, 2015 and 2016, respectively on the Transmission Feeder Failures program, the Failed Transformer program, and the Failed Equipment other than Transformers program. For these programs, Staff recommends \$31.92 million, \$32.016 million and \$31.779 million, respectively, based on average annual historical spending of \$30.684 million over the 5-year period FY2008 through FY2012 as shown in Exhibit 246 and discussed on pages 72-73 of the SEIIP's direct testimony.

In its rebuttal, the Company did not disagree with our proposal to fund the programs based on five year average of actual expenditures. However, Con Edison claimed that we did not adequately escalate the historic spending for inflation (CE IIP Rebuttal, p. 212). Staff believes that its recommendation based on historic spending, plus an average annual escalation of \$1.2 million is reasonable. Moreover, our recommended annual amounts are greater than the Company's claimed average annual request of \$31.3 million for 2013 through 2017 (Exhibit 242, response to DPS-554). Consequently, our annual adjustment of \$1 million is reasonable and should be approved by the Commission.

viii. SSO Technology Improvement Program

In its direct testimony, Con Edison proposed a \$1.0 million budget for rate years 2014 and 2015, and a \$1.1 million budget for rate year 2016 for its Technology Improvements Program (CE IIP Direct, p. 309). Staff's analysis showed that the Company spent on average of approximately \$528,000 annually for 2008 through 2012, compared to its \$643,000 average annual budget (Staff SEIIP Direct, p. 74). Consequently, we recommended a negative \$400,000 adjustment to the program in 2014 and 2015 and a negative \$500,000 adjustment in 2016 to allow for a \$600,000 annual budget for the years 2014 through 2016 (Staff SEIIP Direct, p. 75).

In rebuttal, the Company argues that the recommended adjustment would not allow the Company to proceed with necessary software upgrades in the rate years (CE IIP U/R, p. 54). We are not persuaded by Con Edison's argument on rebuttal because the Company has the ability to manage its T&D capital budget through its capital prioritization process to fund the software upgrades if necessary. Therefore, Staff believes that our recommended

adjustments are reasonable and should be approved by the Commission.

ix. Primary Feeder Relief

The Company requested a funding level of \$10.5 million in 2014 for the Primary Feeder Relief program. This program covers the primary feeders that, each year, are projected to operate beyond their normal and contingency ratings. Relief are provided by doing feeder replacement, transferring load between feeders, balancing load on a given feeder, bifurcating an existing feeder, and establishing new feeders (IIP Direct, pp. 154; Exhibit 498, pp. 54-56).

We recommend a \$3.5 million reduction in funding for 2014 to reflect the 2013 budget level of \$7 million. The same load forecast analysis described above in the discussion of the Network Transformer Relief program was used to determine the appropriate funding level for this program (SEIIP Direct, pp. 81-82).

The Company argued in rebuttal that the funding level for 2014 should not reflect the level of 2013 because the Company made a downward adjustment to the 2013 budget to account for post Sandy system normalization and 2013 storm hardening work. In addition, Con Edison rejects the \$3.5 million reduction in funding because it claims Staff's testimony provided little justification for this recommendation (IIP U/R, pp. 31-33).

Staff's recommendation remains at \$7 million for 2014. As stated in our justification for the Network Transformer Relief program adjustment. Con Edison's statement that the 2013 final budget for this program was reduced due to storm hardening is a red herring, it is a fact that storm hardening projects will be implemented in 2014 that will be at or above the levels for 2013 but this had no impact on how we determined our

proposed funding level for this program. In addition, Staff's testimony provided sufficient justification for this recommendation. Our recommendation is based on the same load forecast analysis discussed for the Network Transformer Relief program.

x. Network Transformer Relief

In its direct testimony, the Company requested \$29.5 million in 2014 for the Network Transformer Relief program to cover the installation of cables, conduits, and vaults (IIP Direct, pp. 154-155; Exhibit 498, pp. 44-46). Each year, network transformers that are projected to operate beyond their normal and contingency ratings are replaced with transformers that have a higher rating, a greater capacity, or by adding a transformer to the system to decrease the loads on neighboring transformers.

We recommend that the Commission determine a \$7 million decrease in funding for 2014 to reflect the 2013 budget level of \$22.5 million. The reason for our recommendation is that we are concerned about the budget levels set for this program. When we reviewed Con Edison's historical budget and actual spending there was an annual difference of \$14 million, on average, from 2007 to 2011. In its response to DPS-503 (Exhibit 242, pp. 281-310), Con Edison states that the timing of the budget process is a reason for the variation between what was budgeted and actually spent. The Company claims that the engineering analysis used to determine which network transformers require relief is generally done after summer, which is subsequent to the preparation of the budget. Generally, the budgets are created based on historical trend information and load growth.

Staff reviewed Con Edison's load forecast, provided in

response to DPS-689 (Exhibit 242, pp. 359-409), to better understand the expected level of load growth. With the 2012-2021 load forecast information obtained in the response to DPS-689, Con Edison requested a budget of \$22.5 million for network transformer relief for 2013. The amount of funding for the network transformer relief program is based on the amount of load expected. Therefore, since the projected network loads in 2013 from the 2012-2021 ten year load relief report are very similar to the forecasted network loads for 2014 in the 2013-2022 ten year load relief report We recommended a budget for 2014 which reflects the budget level for 2013 (SEIIP Direct, pp. 79-81; Exhibit 242).

The Company argued in rebuttal that funding level in 2014 should not reflect that of 2013 because the program budget in 2013 was reduced to achieve storm hardening work (IIP U/R, p. 34). According to Con Edison, the original budget was \$28 million for 2013 and that represented funding for a forecasted load growth of 162 MW; meanwhile the forecast for 2014 shows a load growth of 167 MW, and this growth rate justifies the investment of \$29.5 million. Furthermore, the Company claimed that Staff incorrectly calculated the \$14 million average difference between the historical budget and actual spending from 2007 to 2012 (IIP U/R, pp. 33-34).

We continue to believe that a funding level of \$22.5 million for this program should be set by the Commission and that Con Edison's proposed spending level should be rejected. Con Edison stated that its budget for this program is based on historical trend information and load growth. In determining our adjustment, both of these elements were reviewed. As stated in our testimony, Con Edison has a history of inaccurately forecasting for this program to the extent that between 2007 and

2011, there has been an average difference of \$14 million between historical budget and actual spending (SEIIP Direct, p. 80).

As shown in the response to DPS-758 (Exhibit 861) the data comparison the Company used is not the same as the data we used and is not the report Con Edison would use when it is determining the final 2014 relief work under this program. Con Edison's argument that an increase in load between 2013 and 2014 in the 2013-2022 ten year load relief report justifies an increase in funding is incorrect. The work that will be done will be based on a ten year load relief report that has been further refined as additional actual load information is obtained. Since the total load forecast for each year decreased by more than 100 MW when comparing the 2012-2021 to 2013-2022 reports and new business is not expected to increase much if at all (Exhibit 498, p. 22), the expectation would then be for the load forecast for 2014 to decrease even further with the 2014-2023 report than what is shown in the 2013-2022 report.

In addition, Con Edison states that it made the adjustment in 2013 based on its expected level of expense for storm hardening. It is our position that through the storm hardening and resiliency collaborative, additional storm hardening projects will be implemented in 2014 that will be above and beyond its historical storm hardening programs. With this additional capital investments, the rationale for a decrease in spending in this program due to the large cost of storm hardening remains.

xi. Secondary Open Mains

Con Edison requested \$138 million for 2014 to perform emergency repair work on secondary cable failures in the underground secondary network system. These repairs often involve cable replacement, cable joint replacement and related

conduit and subsurface structure work (IIP Direct, pp. 274-275; Exhibit 492, pp. 19-21).

In 2012, Con Edison started to prioritize its secondary mains by categories and developed a new specification to address this change. Open mains are now prioritized based on their criticality to the Con Edison system, such as its impact on overload, critical customers, and power loss. In its response to DPS-691 (Exhibit 242, pp. 443-444), Con Edison was unable to provide an estimate of the amount of open mains by priority level. Con Edison's testimony and exhibits also did not include an explanation for the need of approximately \$10 million more funding in 2014 versus 2013, and at least \$10 million more in 2014 versus the budget proposed for each of the future years, 2015 to 2017. Based on the prioritization of secondary open mains, historical spending levels are no longer justified. Therefore, Staff recommends a funding level of \$129.3 million, in line with the 2013 budget (SEIIP Direct, p. 86).

Con Edison claims that it appears we have incorrectly interpreted the historical budget for the program and failed to realize that the current 2013 budget reflects a reduction. This program was adjusted in 2013 to account for post-Sandy system normalization and 2013 storm hardening work (IIP U/R, pp. 35-36). Reduction in funding below budgeted amounts could significantly affect the Company's ability to repair open mains and maintain the safety and reliability of its secondary system. Staff's \$8.7 million reduction would increase the secondary open mains historical three-year average backlog from 2000 to 2485 open mains. Con Edison rejects SEIIP recommendation. (IIP U/R, pp. 34-39)

Con Edison's statement that the 2013 final budget for this program was reduced due to storm hardening is a red

herring, it is a fact that storm hardening projects will be implemented in 2014 that will be at or above the levels for 2013 but and this had no impact on how we determined our proposed funding level for this program. With regard to Con Edison's claim that our recommendation will increase its backlog of open mains, the Company has maintained a backlog of open mains for a while. In 2011, it determined that a backlog of 2549 open mains (Exhibit 862) was an acceptable level. Also, Staff analyzed the supplemental response that the Company provided for DPS-691 (Exhibit 867) and concluded that only the forecasted number of low priority mains would be impacted with our proposed adjustment and would result in a lower backlog than Con Edison had in 2011. The Company did not provide justifications for the need of approximately \$10 million more funding in 2014 versus 2013, especially considering there are ongoing storm hardening efforts, mains are now prioritized and for 2015-2017, Con Edison forecasts that it will spend less than the \$129.3 million we recommend.

xii. EO Transformer Purchases

While Staff is not addressing "EO Transformer Purchases" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

xiii. Overall Capital Expenditure Adjustment

Please see the introduction under Section IX.a.

xiv. USS Program

While Staff is not addressing "USS Program" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

xv. Storm Hardening

In its original rate filing, the Company proposed funding for storm hardening projects in the amount of \$62.9 million, \$144.9 million, \$235 million, and \$246 million in 2013, 2014, 2015, and 2016, respectively. Con Edison, in its updated rebuttal testimony, revised its funding levels to reflect changes in its storm hardening projects in the amount of \$67.9 million, \$152.4 million, \$240 million, and \$253.5 million in 2013, 2014, 2015, and 2016, respectively.

Work on critical transmission, substations, and distribution overhead and underground systems damaged by Sandy or identified by the Company to be addressed for this year's hurricane season was completed on or before June 1, 2013. These immediate storm hardening projects for the substations included sealing of troughs, conduits, panels, and cabinets in relay houses and control rooms. The installation of removable flood doors, barriers walls, and high speed pumps would further protect relay houses, control rooms, pump house, transformers from water intrusion. Distribution work to reduce customer outages included installations of overhead and underground isolation switches, submersible transformers, and pole replacements. The Company's scope of work on the longer term projects for which funding has been requested to cover the 2014 rate year and beyond are summarized as follows:

Substation Projects

- Elevate relay houses and cabinets, pump houses, cooling plants, and diesel generators;
- raise existing barrier walls and/or install new ones, install perimeter walls, install flood doors;
- install high capacity flood pumps for redundancy; and,
- replace copper communication cables with fiber optics data lines.

Distribution Projects

- Installation of overhead and underground isolation switches;
- pole replacements;
- sacrificial breakaway components;
- selective undergrounding of the overhead system;
- submersible transformers and network protectors; and,
- re-configuring of networks into sub-networks.

We evaluated each of these long term projects through the IR process and met with Company personnel, as necessary, to further clarify IR responses. Staff also toured various sub-transmission yards, substations, and underground facilities to get a better understanding of the information provided in the Company's testimony and exhibits. Con Edison's whitepapers concerning the scope of the work for the rate year, and project details provided in response to Staff's information request were generally limited in scope and vague on specific cost details for each project. The project details also revealed that the construction plans were not fully developed, and that the longer term projects are still in the engineering design stage. Because the details provided by Con Edison for each project was limited in work scope and without unit cost information, it was difficult for Staff to justify the Company's long term proposals.

According to the Company's testimony, its design standard was based on the observed Sandy flood levels at each substation, the 2010 Category 1 Hurricane levels as predicted by the National Weather Service's Sea, Lake, and Overland Surges from Hurricanes (SLOSH) maps, and the 2007 Federal Emergency Management Agency (FEMA) Flood Maps plus two feet. Con Edison elected to design, at a minimum, to the highest of the three levels (SEIIP Direct, p. 34). However, the new FEMA advisory maps and studies on climate change would likely increase the

design standards. The Company needs to incorporate into its storm hardening and resiliency capital plans, the flexibility to adjust for potential changes in surge height and climate change impacts as part of its re-evaluation and future development plans.

New York City (the City or NYC) proposes that the Commission require Con Edison to use the most recent information available (NYC Climate Risk Panel Direct, p. 2). The City cited two reports that were recently published, A Stronger and More Resilient New York 2013, written under the direction of the NYC Mayor's office, and the New York City Panel on Climate Change (NPCC) 2013 Report. Both reports concluded that resiliency and climate change will have an effect on design standards, and offers what the new design standard should be. We agree with the City that the most current information available on potential storm surges and climate change should be used.

Dr. Horton concurs with the City as well, citing in his testimony that the 2013 FEMA flood maps do not incorporate future projections of sea level rise (Horton Direct, p. 12). Dr. Horton is also concerned with climate change impacts over the long-run (from 2020s through the 2080s). As he states in testimony, the ClimAID 2011 Report concluded that sea level rise around New York is projected to rise 5 to 10 inches by 2020s, 19 to 29 inches by 2050s, and 41 to 55 inches by 2080s. He also states that studies show that New York City is likely to experience extreme heat events in the future (Horton Direct, p. 7). Dr. Horton suggests that Con Edison engage with scientists to understand the climate scenario predictions and what those predictions might mean as to the potential impacts to the Company's systems.

According to Klaus H. Jacob, the Company has failed to engage in a robust evaluation of the full range of climate-

related risks and potential risk mitigation/adaptation measures (Jacob Direct, p. 10). Mr. Jacob recommends that the Commission require Con Edison to re-evaluate its proposals using a comprehensive risk management approach. The risk management approach, according to Jacob should consider risk factors such as sea level rise and heat. In Mr. Jacob's supplemental testimony, he states that the Company should adopt the recommendations in both the NPCC 2013 Report and A Stronger and More Resilient New York 2013 Report.

It is clear to us that almost all of the parties to this proceeding are concerned about the resiliency of Con Edison's systems in light of the risks posed by climate change, the potential for stronger storms and hurricanes, the potential for increased heat events (both temperature and duration), and scrutiny of the costs to customers based on need and benefit to the system and the Company's customers. To that end, Staff recommended that the Commission institute a collaborative effort among the active parties so that a full or partial consensus may be reached, for Commission approval, on design standards the Company will be required to use going forward (SEIIP Direct, pp. 36-37). This effort has already begun and we are in the initial stages of the collaborative process. Should the collaborative fail to address fully or partially storm hardening and resiliency issues for the rate year, we believe that there is a sufficient record in these proceedings for the ALJs to make such recommendations for the rate year in their recommended decision, and for a Commission determination.

We recommend that the Commission approve certain funding in the rate year to allow the Company to address storm hardening needs for that period. Specifically for substations, projects would include installation of barrier walls (with flexibility to increase their height), sealing and water

proofing of equipment, control panels, and relay cabinets in 2014. Additional funding should also be allowed in rates to address initial costs associated with engineering analysis, development plans, and lead time procurement of equipment and supplies in anticipation of the work to be performed in 2015-2016. For electric distribution overhead and underground projects, Staff recommends the following funding.

For the Bowling Green and Fulton Network Boundary project Con Edison proposes funding in 2014 of \$21 million. The installation of these switches would allow Con Edison to isolate vulnerable flood zones and minimize customer impact in non-flood zones during a storm. The ability to preemptively close these switches would prevent a catastrophic failure of equipment resulting from a storm surge.

The City of New York commented "Staff seems to concur with the Company that it is inevitable that half of the customers in each network would be de-energized during a flooding event even after an investment of some \$21 million.. While we support the use of isolation switches to minimize the number of customers potentially affected by flood events, the proposed level of investment should accomplish more than just cutting the existing networks in half" (NYC EIP Rebuttal, p. 8). Staff agrees with the City of New York's statement. Our conclusion was merely based on the specific number of switches to be installed that would result in approximately fifty percent of the outages for each network. The possibility of installing more switches to further reduce the number of customers affected could be explored in the collaborative.

The City of New York stated that the "PSC should reject Con Edison's proposal for these projects and direct the Company to design a long-term solution that does not require customers to be disconnected during foreseeable events, or

minimizes, to the maximum extent possible, the number of customers that could be affected. Isolation switches can be part of the solution, but the Company should assess other options to further harden the infrastructure in these areas." (NYC EIP Rebuttal, p. 8)

We agree with the City's recommendation. We would also add that Con Edison's plan to separate networks with isolation switches is a sound engineering design plan with an opportunity to expand its program to further reduce outages in the future. This project is intended to allow the Company to maintain service to critical health services, such as the Downtown New York Hospital, during storm events and other functions, such as the New York Stock Exchange, vitally important to the economy of New York and the United States and should be funded in 2014 in the amount of \$21 million. The City's issue should be part of the discussion in the collaborative.

Con Edison proposes funding of \$19 million, \$23 million, and \$23 million for the installation of switches to isolate customer equipment for 2014, 2015, and 2016, respectively. There are customers in flood zone areas with high tension service (13kV) installations on their property that are fed directly by Con Edison's feeders. During Sandy, the Company's feeders that energize these high tension installations failed while in service, because the flooding damaged customer equipment, which affected the Company's high tension feeders. Installation of isolation switches would allow Con Edison to de-energize and isolate the customer equipment from the system's feeders (SEIIP Direct, p. 44) thereby avoiding feeder failures.

The City of New York is concerned with the number of isolation switches recommended by Staff. The City claims that this recommendation does not appear to be consistent with

Staff's assertion in testimony that "[t]he Company needs to take into consideration the flexibility to adjust to heights and climate change as part of its re-evaluation and development plans in order to meet the new height requirements" (NYC EIP Rebuttal, p. 9). In the City's rebuttal testimony, the City claims that using observed Sandy levels is an improper basis to use as a design standard. The City asserts that the isolation switches should be installed based on the latest available flood maps.

We recommend that the Commission determine a funding level of \$19 million, \$6 million, and \$5 million in 2014, 2015, and 2016, respectively. Con Edison has provided a list of 70 locations for the installation of the isolation switches (Exhibit 242, pp. 441-442). This list is prioritized by the Company based on factors such as locations relative to the flood zone, the extent of the damage from Sandy, critical customers, and essential backbone feeders. Our assessment of the locations, based on Flood Zone 1 that were affected and not affected by Sandy as indicated in its response to DPS-690 (Exhibit 242, p. 411), identified 30 installations. Staff agrees that the number of isolation switches to be installed should be based on the latest FEMA flood maps when made available and that this be a topic of discussion in the collaborative. Accordingly, any consensus reached by the collaborative should include an adjustment necessary for the appropriate number of switches to be installed.

For many years, Con Edison has undertaken storm hardening initiatives as part of its capital programs. Staff believes that the Company generally approached storm hardening with the intention of addressing resiliency, cost efficiencies, safety, reliability, and load relief in planning each of its construction programs. Poles and feeders are replaced with more

resilient materials resulting in an increase to the equipment's strength and life span while at the same time addressing reliability. Contrary to NYC's assertions, it makes no sense to discontinue these existing programs.

The City disagrees with Staff's recommendation that Con Edison continue with its existing storm hardening programs. The City stated:

"If the Company's existing requirements and storm specifications were only marginally adequate during Hurricanes Irene and Lee, we question why Con Edison should be allowed to perpetuate these specifications when more damaging storms, such as Hurricane Sandy, are likely to occur more frequently in the future. For Staff to recommend that Con Edison carry on with a program which has not only failed to show any reliability or resiliency benefits, but which is based on outdated equipment requirements and storm specifications, is illogical. The PSC should require the Company to halt its existing storm hardening programs and develop a long-term plan that uses the latest information on storm specifications, for which the appropriate equipment specifications can be established" (NYC EIP Rebuttal, p. 5).

The City misinterpreted Staff's discussion regarding the similarities between capital programs and storm hardening projects. We simply stated that capital programs which result in storm hardening benefits and improve resiliency are appropriate, since the Company has made such capital improvements in the past. The notion that we or the Commission allows Con Edison to "perpetuate these specifications when more damaging storms, such as Hurricane Sandy, are likely to occur more frequently in the future..." is misplaced. The Company has over the years made changes to its specifications when warranted. These specification changes are sometimes a result of greater intense storms and new technology. Superstorm Sandy

has taken these specifications to a different level to now require the incorporation of the impacts due to revised FEMA flood maps and projected climate change.

The Company cut or deferred substation and distribution capital programs in the amount of \$58.1 million in its rate proposal in order to reduce the 2013 budget. We believe that these program changes would not negatively impact the safety or reliability of the electric system, and that the deferment of these programs would still allow the Company to maintain adequate reliability in 2013. Staff also reviewed the impact of these cuts (Exhibit 242, p. 83) and concluded that the same programs can be cut or deferred in 2014.

Con Edison disagrees and claims that any programs that are deferred in 2014 would have a negative impact on the system (IIP U/R, p. 41). The City of New York stated there is little evidence to indicate how Staff came to its conclusions and that the decision to support the deferral or elimination is contrary to staff's assertion that "[i]f Con Edison only replaces equipment in response to an outage or equipment failure, as opposed to following a well-planned improvement schedule; older equipment will begin to fail with increasing frequency" (NYC EIP Rebuttal, pp. 9-10).

Our conclusion was based on the Company's response to Staff's DPS-102 (Exhibit 242, pp. 82-83). In DPS-102 we asked Con Edison what the impact would be on its electric system if each of the programs were cut or deferred. Based on the responses provided, we believe that the same reasoning can be applied to 2014. Our recommendation to defer or eliminate projects is not contrary to our belief that "if Con Edison only replaces equipment in response to an outage or equipment failure, as opposed to following a well-planned improvement

schedule; older equipment will begin to fail with increasing frequency" (SEIIP Direct, p. 20).

There are hundreds of capital programs in place that are part of a well planned improvement schedule. Deferring a few programs that potentially have no significant impact on the system or that could be addressed by similar type programs is not unreasonable. For example, the Network Reliability Program adds additional primary feeders to relieve overloads resulting in increased reliability (Exhibit IIP-6, pp. 140-145). The Emergent Load Relief Program (Exhibit IIP-3, p. 17) and the PILC Replacement Program (Exhibit IIP-6, pp. 161-163) addresses overload conditions as well, with the same end result.

Contrary to NYC's perspective, Staff recognizes that resiliency is not a separate class of infrastructure investment; storm hardening, or improving the resiliency of the electric system should not be separate and apart from making capital improvements for reliability purposes, load growth, and system reinforcement. In developing its capital projects, Con Edison should consider resiliency impacts as a component of the project. However, projects where storm hardening is the sole benefit and intent would be classified as such. Additionally, the only distinction that Staff would make between storm hardening and capital improvements is for accounting purposes and Staff recommended that the Commission direct Con Edison to separately track storm hardening projects (Staff Policy Panel Direct, p. 49).

b. Gas Capital

i. Slippage Adjustments

**1. - 4. Gas Transmission and Generation,
Distribution Supply Main, Pressure
Control, IT Projects**

The Company proposed several capital projects under its gas capital budget related to gas transmission and generation, distribution supply main, pressure control and information technology (IT) projects. The Company budgeted \$39.2 million, \$22 million, \$2.8 million and \$7.1 million for 2014, respectively (Exh. 566). Staff recommends a slippage adjustment based on our review of the Company's historic actual levels of spending for gas plant in these categories (Staff Gas Infrastructure, Direct, Corrected, pp. 27-28) during the past three calendar years (Exh. 594). Finally, Staff also recommends the adoption of a net plant reconciliation mechanism (Staff Gas Infrastructure, Direct, Corrected, pp. 30-31) to further protect ratepayers.

In rebuttal, the Company states that under-spending in these categories was due primarily to the reallocation of capital funding to priority projects in order to avoid spending over what had been established in rates under the current plan (CE Gas Infrastructure, R/U, pp. 39-40). The Company further states that if Staff's slippage adjustment is granted, it will significantly hinder the Company's gas expansion efforts (Id., p. 41).

Staff believes that Con Edison must do a better job at budgeting individual projects in the context of its overall budget. Based on Staff's analysis of these discrete categories, using distribution and supply mains as one example, the Company spent an average of 67% less than what was budgeted between calendar years 2010 and 2011 and an approximately 47% less in

2012 (Exh. 594). The Company's capital budget is crucial to the rate setting process and if the Company repeatedly fails to spend up to its forecasted levels it undermines the credibility of both the Company's ability to accurately forecast its capital needs and the projects reflected in its budget.

Moreover, while Con Edison's explanation for its repeated under-spend seems plausible, it should be noted that instead of adjusting its Rate Year forecast for these discrete categories to more reasonably reflect its historic under-spending, the Company substantially increased its level of spending. For example, with regard to the pressure control category, Con Edison increased its forecasted spending level from \$930,000 to \$2,790,000 and, with regard to the transmission and generation, Con Edison increased its level of spending from \$856,000 to \$39,200,000 from 2012 to the Rate Year forecast (Exhs. 594 and 566). Based on the foregoing, Staff's submits that a slippage adjustment is warranted to the gas transmission and generation, distribution supply main, pressure control and IT categories.

ii. Adjustment to Oil to Gas Conversion Costs

The Company requests approval for capital expenditures related to oil-to-gas conversions of approximately \$90 million in 2014 claiming that these costs are necessary to install mains and service lines to attach new customers anticipated to switch to natural gas. Con Edison utilizes the output from multiple models to determine the areas where conversions will take place, the level of conversions and the costs being forecasted to install the infrastructure needed to serve these customers (CE Gas Infrastructure, Direct, p. 43-44).

While Staff does not object to the number or location of these customers, we do object to how the Company forecasted the cost to attach these customers. Specifically, we object to

the forecasted unit cost of mains and services. Staff reviewed Con Edison's models and revised them to include the actual costs that the Company provided for the five New York City boroughs to install services and mains based on its Productivity Reports (Exh. 591). Indeed, the Company's Productivity Reports showed actual costs through 2012 that were much lower than the Company's projections (Staff Gas Infrastructure, Direct, Corrected, pp. 18-19). Staff's analysis, based on the Company's actual reported costs, resulted in a \$25,346,000 reduction to its Rate Year forecast (Id., p. 20).

In rebuttal, the Company, for the first time, states that it incorrectly reported data related to its oil-to-gas conversions on its 2012 year-end Productivity Report due to what it claims was a transition problem to a new computer program (CE Gas Infrastructure, R/U, p. 28). Con Edison's explanation is highly suspect considering it was only introduced after Staff submitted its case and made a significant adjustment to the Company's oil-to-gas capital expenditure program based on the Company's actual reported costs (Tr. 1063). Moreover, it is the Company's responsibility to adequately justify any change and provide documentation that there was an error. As discussed below, that was not done here (Tr. 1060).

The Company states that the data was incorrect due to 2012 being the first year it reported oil-to-gas conversion costs separately from traditional new business (CE Gas Infrastructure, R/U, p. 28-29). Con Edison is apparently making a distinction between the main and service costs to support oil-to-gas conversions and traditional new business main and service costs. But, under the Company's oil-to-gas conversion costs, main and service extensions differ significantly from traditional new business costs despite the fact that work is being done along similar streets and roads throughout the City's

five boroughs. The Company provided no valid reason why its 2013 unit costs to install the same services and mains in the same areas should deviate so substantially from the Company's traditional new business costs (Tr. 1064-1066). There is certainly nothing unique regarding the Company's oil-to-gas construction efforts that would justify such a large discrepancy over its actual historic spending levels for traditional new business and its Productivity Report data from 2011 through 2012 support this fact (Exh. 591, pp. 91, 94, 97, 100, 103 and 106). For example, the cost to install one service in the borough of Manhattan was \$32,000 and \$37,000 for 2011 and 2012, respectively. However, the Company inexplicably budgeted \$50,000 per service for 2013. In addition, the Company added a growth factor of 1.5% and an increase for overhead of 10%, resulting in a cost per service of \$60,038 for the Rate Year (Exh. 591, p.68). A similar pattern of over-budgeting is observed for the borough of Bronx and Queens. Accordingly, Staff's adjustment to the Company's oil-to-gas conversion capital expenditures is reasonable and should be adopted by the Commission.

iii. LNG Year Round Liquefier

The Company proposed to switch its liquefied natural gas (LNG) plant from a water-cooled to an air-cooled unit in order to allow it the ability to liquefy gas all year round (CE Gas Infrastructure, Direct, p. 86). With a water-cooled unit, Con Edison is prevented from liquefying when the temperature drops below freezing. The total capital cost related to switching the equipment was projected to be \$2.5 million with \$1.4 million in 2014 (Id., p. 87).

Staff disagrees with the request because the LNG plant is used as a peaking facility to assist the Company in meeting extremely high demand during limited winter days. Since the

facility is used so infrequently and when used it is only at a minimal draw, there is no real threat of running out of supply if the plant continues to be able to liquefy only on days the temperature stays above freezing (Staff Gas Infrastructure, Direct, Corrected, p. 23). Therefore, Staff recommends that the capital expenditures associated with this project be removed from the Rate Year forecast (Id. at p. 24). In rebuttal, the Company responds that it needs to replenish the tank inventory due to the design boil off rate of the gas at the facility which is approximately 17% annually (CE Gas Infrastructure, R/U, p. 36).

Historically, this facility had been utilized on only one occasion in 2009 and once in 2011 and each release amounted to less than 1% of the capacity of the facility (Exh. 591, p. 87). Despite Con Edison's argument regarding the design boil off rate, the actual amount occurring during critical winter cold spells is minimal. Therefore, Staff continues to believe that the likelihood that the facility would run out during a cold spell is remote and our capital expenditure adjustment should be adopted.

iv. Removal of Leak Prone Pipe

Con Edison proposed a replacement program for 2015 and 2016 that will target replacement of cast iron and bare steel pipe in flood zones in addition to its current leak-prone pipe main replacement program. The Company states that low pressure distribution mains allow water to infiltrate the system if facilities have undetected leaks or if facilities are damaged during coastal flooding. In addition to water infiltration mitigation, replacement of bare steel and cast iron pipe would reduce the number of potentially hazardous natural gas leaks (CE Gas Infrastructure, Direct, pp. 128-129).

The City states that the low pressure system is vulnerable to water intrusion which, if it occurs, can damage the system. The City submits that given the increased safety risks associated with leak-prone pipe in flood zones, as well as the goal of making the gas system more resilient, the expanded flood zones underscore the need to replace the leak-prone pipe in flood zones as soon as practicable (NYC Gas and Steam Infrastructure, Rebuttal, pp. 4-5).

Staff argues that because Con Edison has not performed the level of analysis needed to justify this replacement program and associated cost, it should not be allowed. However, in order to ensure that Con Edison incorporates the safety risks associated with the impact of flooding in these areas Staff recommends the Company incorporate this risk factor into its main replacement prioritization program (Staff Gas Safety, Direct, p. 17).

In rebuttal, the Company disagrees arguing that if a factor is added for mains in flooded areas to its main replacement program, the resulting prioritization ranking could elevate reliability over public safety (CE Gas Infrastructure R/U, p. 105). The City argues that if flood zone replacements are dependent on the outcome of the leak-prone pipe replacement prioritization model, then the exact timing and locations of those replacements would not be known until the model is used each year to determine which pipe needs replacing (NYC Gas and Steam Infrastructure Rebuttal, pp. 3-5).

Based on historic water infiltration events that have occurred in Con Edison's gas territory, Staff continues to disagree with a separate replacement program that will target replacement of cast iron and bare steel pipe in flood zones. According to Con Edison, approximately 1,500 gallons of water was removed from its low pressure gas distribution system

attributed to flooding from Superstorm Sandy in 2012 and there was no water infiltration identified as a result of flooding due to Hurricane Irene in 2011 (Exh. 580, p. 15). The Company states that not only did water infiltrate the gas system through existing leaks on bare steel pipe and joints on cast iron mains, but also due to flooded basements and damaged customer equipment (Exh. 817).

When the effects of water infiltration caused by flooding from Superstorm Sandy is compared to other historic water infiltration events, it is clear that there have been flood events that have had a greater impact on the low pressure gas distribution system outside of flood zones. For example, in July and August of 2011, there were two water main breaks that caused water infiltration into the Company's gas system. Approximately 30,250 and 27,000 gallons of water, respectively, were pumped out of the gas system as a result of these incidents (Tr. 854).

Therefore, Staff continues to recommend that the Company increase the total amount of leak-prone pipe replaced per year to 60 miles and if it identifies pipe in flood prone areas that present a safety risk to the public greater than other identified sections, it replace that pipe under its leak-prone pipe replacement program (Staff Gas Safety, Direct, p. 17).

v. Critical Components - Hunts Point to Bronx Border

The Company proposed a multi-year replacement of a 7.6 mile long transmission main extending from the Bronx River Tunnel to the Bronx-Westchester border that it identified as containing fabricated mitered welds, drip pots, and/or couplings (Exh. 567, pp. 195-196). There are 34 individual segments that have been identified as needing replacement, totaling approximately 3,900 feet of transmission main. Con Edison retained an engineering services firm to conduct an integrity

assessment of two of the mitered welds from this transmission line and determined that certain characteristics of the existing pipe did not meet current design specifications (CE Gas Infrastructure, R/U, pp. 110-111). During 2013, the Company removed four miter joints and had them subjected to metallurgical testing. The Company has not completed its evaluation of these removed joints. The Company intends to remove three to six additional welds in 2014 to obtain sufficient data to complete the probabilistic assessment (Id.; Exh. 580, pp. 76-84).

Until Con Edison has the results of the testing on the miter joints to determine whether an actual safety risk is present, Staff believes that the Company's proposal is premature inasmuch as the Company has not provided adequate support for this project. Therefore, Staff recommends that the expenditures associated with this project not be allowed in the Rate Year. Con Edison should instead file the results of the testing of the existing miters removed from the pipeline with the Commission for review by year-end 2013. If the metallurgic testing by a third-party concludes the miter joints contain a high enough risk to the public, and the Commission agrees, then Con Edison should request recovery for this project in its next filed rate case (Staff Gas Safety, Direct, pp. 51-52).

vi. Storm Hardening

The Company proposed several capital projects for its gas capital budgets related to storm hardening. One such project involves the replacement of head houses commencing in December 2015 at an estimated cost of \$19.5 million and a second phase commencing in December 2016 at an estimated cost of \$40 million (CE Gas Infrastructure, Direct, p. 131).

Staff recommends that the consideration of the replacement of head houses be addressed in the storm hardening

collaborative, since these projects are not projected in the Rate Year and the Company did not provide detailed engineering work to support these projects (Staff Gas Infrastructure, Direct, pp. 31-34). In rebuttal the Company agrees with Staff's recommendation, subject to certain considerations addressed by the Staff Policy Panel (CE Gas Infrastructure, R/U, p. 44).

1. Vent Line Protection (VLP) Devices

The Company proposed to install float check valves at service regulator vents to approximately 9,223 services at an average cost per installation of \$600 during 2013 and 2014 to address the increased risk of possible over pressurization to customers in flood prone areas that have high pressure gas service (Exh. 580, pp. 19-23 and 74-75). Con Edison's test results for the VLP devices demonstrated that while the devices generally stop the flow of water into vent lines, the testing also demonstrated that the downstream pressure to the customer could substantially rise, even exceeding the allowed pressure common appliance regulators are designed to withstand. However, upon further testing, Con Edison determined that if the device was installed in its proper orientation, contained vent holes and had a properly sized screen it could operate reliably (Exh. 580, pp. 19-23).

Con Edison has developed a device that prevents water intrusion into gas service regulator vent lines under certain conditions. The research provided by Con Edison demonstrates that the device could work as designed under flood conditions. However, as Staff observed during Superstorm Sandy, the safest response to a flooded structure is to physically visit the premises and isolate the gas service (Staff Gas Safety, Direct, pp. 47-49). Given that the Company's VLP devices have only been subjected to laboratory testing and that Con Edison will still need to visit each customer premises, Staff is concerned about

the actual operation and longevity of these devices in the field. Therefore, Staff recommends that Con Edison be allowed to install the VLPs under a program that requires annual removal and testing to ensure the devices are working as designed and that the material properties have not broken down due to environmental conditions.

In response, Con Edison proposes using a statistically based sampling program identical to the Alternative In-test Program that it currently utilizes for its domestic and large gas meter programs. The Alternative In-test Program was previously approved by the Commission in Case 00-G-0026 for all participating New York gas utilities (CE Gas Infrastructure, R/U, pp. 107-108).

Con Edison's proposal should be denied. Unlike customer meter accuracy, service regulator vents are an essential component of a functioning service regulator which ensures the safe delivery of gas to a customer. Staff is concerned about the actual operation and longevity of these devices under field conditions. The meter program results in a much lower number of devices that could otherwise be tested under Staff's proposal. Therefore, the Alternative In-test Program should not be allowed and Staff's recommendation that Con Edison remove a randomly chosen five percent sample annually and subject the devices to appropriate testing by an independent third-party and file the results with the Commission for review, no later than 60 days following the end of each calendar year, should be adopted (Staff Gas Safety, Direct, p. 50).

vii. Variance Reporting

Staff requests that the Company continuing the current requirement to submit the twice-a-year Gas Capital Spending Variance Report to the Commission (Staff Gas Infrastructure, Direct, p. 39). The Company disagrees stating that it sees no

value for the mid-year report or the level of detail required (CE Gas Infrastructure, R/U, p. 49).

Staff continues to take issue with the Company's request to discontinue the mid-year reporting requirement. This report, which used to be required monthly, is not burdensome and amounts to reporting information the Company already has in its possession. Moreover, it provides Staff notice if project spending deviates from forecasted spending levels. Given the significant under-spending in Con Edison's historic capital budget (Exh. 594), it should be required to continue producing and submitting the Gas Capital Spending Variance Report twice-a-year.

viii. Traditional New Business

The Company initially proposed a capital expenditure level of \$42,293,000 for its 2013 traditional new business program. In rebuttal, the Company revised its 2013 budget upward to reflect an increase of \$5 million or \$47,290,000, due to the acceleration of phase two of its West Village High Pressure Upgrade project. The first phase of this project is to install 2,400 feet of 16" high pressure gas main from Leroy Street to Bethune Street, at an estimated cost of \$5.2 million (Exh. 839). The second phase would extend the high pressure 16" main for another 2,100 feet from Bethune to West 14th Street, at the estimated cost of \$5.0 million (Id.). According to the Company, the total cost for installing 4,500 feet of main for these two phases is \$10.2 million, corresponding to a unit cost of \$2,266 per foot of main.

The Company initially provided Staff with a forecasted cost per foot of main of \$1,300 for the borough of Manhattan (Exh. 838). In addition, the actual traditional new business cost per foot of main for Manhattan was \$1,003, according to the Company's 2012 Productivity Report (Exh. 591, p. 100).

Since the Company fails to explain why the cost per foot of main for this particular project deviates so substantially from the Company's historic and forecasted levels, it has not justified the significantly higher unit costs. Therefore, Staff recommends that the unit cost per foot of main for West Village High Pressure Upgrade project should be no more than \$1300 per foot. Applying Staff's adjustment to the length of total main yields a capital budget of \$5.85 million and the Company's traditional new business capital expenditure level should be \$42,893,000 for 2013, Staff's adjustment should be adopted.

c. Steam Capital

i. Emergent Projects

In its Direct Testimony, Con Edison projected that \$5,030,000, \$6,050,000, \$5,985,000, and \$5,850,000 would be required for emergent projects in 2014, 2015, 2016, and 2017, respectively (Ex. 716, pp. 4-7). We recommended adjustments to the Company's estimates for emergent work because the Company's proposed estimates were higher than previous years' budgets and the Company did not provide actual historical spending (Staff Steam Infrastructure, Direct, pp. 7-8). Staff's adjusted annual budget for emergent work was comprised of \$3,556,000 for each year from 2014-2017, (Ex. 685), based on the average of the Company's budgeted amounts for the years 2010-2012.

Con Edison, in its rebuttal, revised its budget for 2014 to be \$2,415,000 but took issue with any reduction in the years beyond the 2015 Rate Year (CE Steam Infrastructure and Operations R/U, p. 20). The Company's revised forecasts were \$2,415,000, \$2,690,000, \$5,985,000, and \$5,850,000 for 2014 through 2017, respectively (Ex. 662, pp. 2-5). This is a one year rate case, encompassing calendar year 2014. We, therefore, accept the Company's lower budget estimate.

ii. Storm Hardening

In its direct testimony, the Company states that as one measure in its storm hardening program, sluice gates would be installed as part of sealing the tunnels for the 59th Street plant, at a cost of \$5.5 million (\$.5 million in 2013, \$5.0 million in 2014) (CE Steam Infrastructure and Operations, Direct, pp. 87-88).

Staff states in its direct testimony that the need for sluice gates was not fully justified by the Company and that other options are being considered (Staff Steam Infrastructure Direct, p. 10). While Staff does not propose any adjustment, it recommends that the need and costs associated with this project be further reviewed in the Storm Hardening Collaborative. Con Edison notes in its rebuttal/update testimony that the estimate for intake tunnel sealing and sluice gate installation increased from \$5.5 million to a total of \$16 million, nearly tripling the cost of the project (CE Steam Infrastructure and Operations R/U, p. 9). Further, in that testimony, Con Edison agrees to review the projects in a collaborative with the caveats noted in the testimony of the Company's Electric Infrastructure and Operations Panel in companion Case 13-E-0030 (CE Steam Infrastructure and Operations R/U, p. 45). The Company did not, however, agree with Staff's assessment that the project had not been fully justified, reiterating the sluice gates' importance. (CE Steam Infrastructure and Operations R/U, pp. 46-47).

The tripling of the costs of the project due to more refined cost estimate of the intake tunnel sealing and sluice gates project is troubling, reinforcing the need to further review the cost versus benefit in the Storm Collaborative. Staff supports further analysis of this design by the Collaborative and this has been agreed to by the Company.

d. Electric Production Capital

i. Emergent Projects

The Con Edison Electric Production capital forecast is categorized based on function. Categories include: Boilers; Turbines; Mechanical Equipment; Electrical Equipment; Control Systems, Structures; Roofs; and, Environmental, Health and Safety (EH&S). The budget for each of these categories is comprised of the forecast of specific projects. Additionally within the Mechanical Equipment, Electrical Equipment, Control Systems, and EH&S categories the Company forecasts expenditures for unspecified emergent work which is intended to fund unanticipated projects due to regulations and/or safety concerns (CE EPP Direct, pp. 9-10). Con Edison proposed emergent work capital expenditures of \$1,675,000 for 2013 and \$654,000 for 2014 (Exh. 235).

Conversely, we proposed elimination of the emergent work capital forecast from plant targets for numerous reasons. Primarily, it is unclear how the funds will be utilized. There are no particular projects for which the funds will be earmarked (Exh. 849). Additionally, the forecasting methodology used by Con Edison is flawed. The Company developed its forecast for electric production emergent work based on historic budget amounts (Exh. 852). However, there is no way to determine how much of the historic budget was used to actually fund emergent work projects (Exh. 849). Thus, actual historic spending levels are not known. Con Edison stated, actual spending cannot be matched to budget amounts as emergent work in each category may be used to partially or wholly support a project in the respective functional category (Exh. 849). Even if actual historic expenditures were available, utilizing historic levels may be inappropriate due to the diversity in cost and nature of

the recent historic projects which the Company provided as examples (Exh. 849).

Therefore, using historic budget levels to forecast future emergent work funding levels is not appropriate. Our recommendation that the Commission eliminate emergent work funding from the electric production capital forecast should be accepted. Staff's proposal is salient because historic electric production budget amounts have been adequate to fund emergent work projects without the need for the emergent work budget amounts. As can be seen in the Company response to our IRs (Exh. 849, Exh. 850), budget levels excluding emergent work were more than sufficient to fund all electric production projects in five of the last six years. Staff agrees that by their nature, projects funded in the emergent category are unanticipated and cannot be anticipated until the need for the projects arises. However, there is a monthly budgeting "sweep" process (Exh. 851) which allows for the re-allocation of funds to either emerging projects with a high strategic value, and/or to projects needing additional funding due to scope changes. This process allows for the Company to fund necessary emergent work projects and maintain budget levels. Additionally, the Company states "Actual emergent projects that exceed the amounts in the budgeted categories will be addressed through the capital prioritization and optimization processes" (Exh. 852).

ii. Storm Hardening

The Company's storm hardening efforts related to electric production at the East River facility consist of flood control measures including: installation of perimeter walls and flood doors, raising and installing moats, sealing penetrations to tunnels, installing sluice gates²⁴ in tunnels, and raising

²⁴ Note that the transcript refers to sluice gates as "loose gates".

critical equipment (CE EPP Direct, p. 41). Mitigation efforts, in the event water penetrates the facility, includes installation of six flood pumps (CE EPP Direct, p. 41).

Con Edison seeks a capital expenditure allowance for proposed storm hardening projects of \$10,000,000 in 2013 and \$14,000,000 in 2014 (Exh. 235). For the five year period 2013 - 2017, Con Edison projects electric production projects totaling \$65.5 million (Exh. 236). Staff supports the projected 2013 projects and expenditures of \$10,000,000. The focus of these projects will be on: installing and/or raising critical flood walls; installing flood doors around the perimeter of the building; sealing of openings and doors no longer used; and, raising critical equipment (CE EPP Direct, pp. 41-42). The Company proposes to order sluice gates for installation in 2014. The sluice gates are intended to seal off the intake tunnels during flood conditions and the Company estimates the cost to be \$12 million in the rate year. Staff recommends that the sluice gate effort be subject to further review through a collaborative. Staff kept funding levels as requested by the Company in net plant targets. In the event the collaborative determines the sluice gates are not needed or should be replaced by a different project, plant targets should be modified. Staff's proposal should be implemented as the sluice gate project is intended to limit a source of potential flood water for entering the station during weather conditions such as super storm sandy. However, the Company focus in 2013 for storm hardening at the East River station is on "installing and/or raising critical flood walls" and "raising critical equipment" (CE EPP Direct, pp. 41-42). Raising critical equipment and installing and/or raising critical flood walls is intended to protect equipment. The installation of sluice gates is intended to harden the facility perimeter. It is unclear what benefits

will be achieved as these measures are redundant (Exh. 235). The Company declined to perform a study to determine the benefit of each measure proposed at the East River facility and also failed to provide a cost benefit analysis of the sluice gate installation (Id.). Benefits of the redundant measure must be known prior to the Commission allowing rate recovery. Therefore, if the collaborative determines the sluice gates are unnecessary, the Commission should remove such funding in the rate year.

e. Municipal Infrastructure

Staff discussed the forecast of Municipal Interference capital expenditures in Section IV.d.i, above.

f. Hudson Avenue

The Company (Steam Infrastructure and Operations Panel Direct, pp. 121-122, Electric Infrastructure and Operations Panel Direct, pp. 137-143 and Muccilo Electric Direct, pp. 82-87) proposed to transfer the Net Book Value of the Hudson Avenue Steam Plant from the Steam Department to the Electric Department on the basis that the site has value for future electric system uses and that it contemplates no future Steam Department use for the site. The Company proposes to reflect the unrecovered cost in electric rate base and amortize it over 20-years. The Company also proposes to transfer responsibility for any demolition or site remediation cost from the Steam Department to the Electric Department. According to the Company, it has already transferred the book value of the land of to the Electric Department and it is booked as Electric Plant Held for Future Use.

We took issue with the Company's transfer proposal for several reasons (Staff Policy Panel Direct, pp. 29-34). There is no immediate need for the property and no definitive plan for its use. Staff is concerned with the potential costs being

shifted to electric customers without having any understanding of the magnitude of the costs, which the Company was unable to provide. While the Company states that the uncertain future cost of demolition should not be an impediment to retaining the property, it is relevant to assessing the level of risk of the transaction that the Commission must consider. Staff recommended that the Company be required to conduct a detailed study of the proposed transfer, demonstrating the expected costs and benefits to both steam and electric customers and considering various options such as the sale of the property to a third-party.

Both the County of Westchester (Mugrace Direct, pp. 22-24) and the Utility Intervention Unit (Majoros Direct, p. 29) expressed concern with the proposed transfer.

On rebuttal, the Company (Muccilo Electric Rebuttal, pp. 50-52) explains that it continues to believe that it provided ample justification for the Commission to approve the transfer of the Station from steam to electric. Mr. Muccilo goes on to propose that if the Commission determines that the transfer should not take place at this time and there should be further study of the matter as suggested by Staff, it would be reasonable for the Commission to authorize the Company's electric operations to pay the O&M expenses and property taxes related to the Station in the interim and make commensurate changes to the electric and steam revenue requirements. Given the number of uncertainties related to this transfer, it is reasonable to keep the Hudson Avenue assets with the Steam Department until a full and complete analysis is presented to the Commission. While the Company continues to believe that electric customers should pay the O&M expenses and property taxes related to the station, it gives no reason why that should be the case. For the benefit of all ratepayers, the Company

should be ordered to complete the study recommended by Staff including a complete accounting of the share of ownership, investment and cost recovery between steam and electric customers over the life of the facility as well as an examination of the environmental liabilities, a current appraisal, a detailed estimate of the demolition costs and a full analysis of whether or not the transfer should take place at fair market value.

g. Customer Operations Capital

i. Customer Service System Study

The Customer Operations Panel (COP) in its direct testimony requests \$5 million per year for each of the years 2013 through 2017 to make upgrades to its programming languages and interfacing systems for its customer service system (CSS) (CE COP Direct, p. 25).

Staff Consumer Policy Panel (CPP) recommends the Company be given the requested money to make its proposed improvements to its CSS; however, it also proposes that, in its next rate case, the Company be required by the Commission to file a comprehensive plan for its CSS system comparing the costs of annual upgrades to total system replacement and a replacement strategy along with comprehensive cost evaluations (Staff CPP Direct pp. 21-21).

In rebuttal, the Company states that the planning involved in Staff's proposed study is independent of rate case filing timelines and should be treated as such, with no guarantee given of when such a report or plan will be produced (CE COP Rebuttal, pp. 24-25). The Company's proposal should be rejected because it requested and has received monies in numerous past rate cases for piecemeal fixes, including \$1 million in 2008, \$1.2 million in 2009, \$3.1 million in 2010, \$3.05 million in 2011, and \$3.05 million in 2012, as recounted

by the Company's own witnesses (CE COP Rebuttal, p. 22). This cannot continue indefinitely.

Our recommendation should be adopted by the Commission because continuing to invest in such an old system, running software written in a programming language no longer taught in schools, will pay decreasing dividends in the future. Total system replacement cannot be completely avoided; only further delayed, and Con Edison must be directed by the Commission to plan now for the future, when a total system replacement is inevitable.

h. Shared Services Capital

i. Facilities Critical Infrastructure

In its initial filing, the Company proposed \$29.6 million in total capital expenditures for the Rate Year for its Facilities Building and Yards (Critical Infrastructure) program (Critical Infrastructure Program) (Exh. 400, p. 18). However, on rebuttal the Company revised its proposal to the amount of \$25 million reflected in its plant-in-service model (CE Shared Services, R/U, p. 33).

Staff, in the Shared Services Panel direct testimony, recommended capital expenditures of approximately \$9.2 million for the Critical Infrastructure Program (Staff Shared Services, p. 11). Our recommendation reflected the Company's five year historical average of capital expenditures for the years 2008 through 2012 based on information provided in response to DPS-535 (Exh. 226, pp. 70-75). In its Rebuttal, the Company stated that its response to DPS-535 did not contain the proper historical expenditure levels for the Critical Infrastructure Program (CE Shared Services, R/U, p.31). The Company provided a revised response to DPS-535 with updated levels of expenditures for this program between 2008 and 2012 (Exh. 8). The expenditures provided in Exhibit 8 reflect a five-year

historical average of \$16.5 million, as compared to the previously calculated \$9.2 million. Staff requested supporting information, and upon review, and believes the updated historical information to be accurate (Exh. 904). Consequently, Staff recommends adopting a forecast of Rate Year capital expenditures of \$16.5 million for the Critical Infrastructure Program.

As Staff noted, the Company failed to explain why it reasonably expects the number of projects or the amount of expenditures to increase so dramatically for the Rate Year (Staff Shared Services, p. 10). Accordingly, Staff believes that a forecast of \$16.5 million is appropriate. In addition, the discrepancy between the Company's request for \$29.6 million in its direct testimony and the request for \$25 million for the program incorporated into its plant-in-service model calls into question the reliability of the Company's proposal (Staff Shared Services, p. 10).

On rebuttal the Company argues that it expects to increase spending on the Critical Infrastructure Program during the Rate Year because: (1) the Company has had to complete "compliance" projects, which it prioritizes ahead of the Critical Infrastructure Program; (2) because in the past the Critical Infrastructure Program was delayed, the Company now must play "catch up" on the projects listed in Exhibit 4 (CE Shared Services, R/U, pp. 35-37). However, the Company's claims are unpersuasive.

With regard to the Company's first rationale, even the Company notes, "Facilities expected (*and continues to expect*) to initially expend most of its capital dollars on "Compliance" based projects and then to gradually move towards the Critical Infrastructure projects... ." (CE Shared Services, R/U, p. 35)(emphasis added). Yet the Company has provided no reason to

expect its focus on "compliance" projects to change during the Rate Year. Indeed, as just one example, the Company cites the Astoria Outfall B rehabilitation project as one of the "compliance" projects causing delays to the Critical Infrastructure Program (CE Shared Services, R/U, p. 37). Yet this project will not be completed until near the end of the Rate Year. The Company accepted Staff's slippage of the in-service date for that project from December 31, 2013 to December 31, 2014, the end of the Rate Year, which more closely approximates the current expected completion date of October 2014 (CE Shared Services R/U, p. 30; Staff Shared Services, pp. 7-8).

The Company's second rationale, that it must now play "catch up" with the projects listed in Exhibit 4, fails to persuade for two reasons. First, "catch up" could be paraphrased as: "Although we said we were going to do this project before, we didn't. But believe us when we say going to get to it this time around." As noted above, the Company has failed to provide evidence that it will actually increase its pace and spending on the Critical Infrastructure Program during the Rate Year. Without such verifiable evidence, the argument that the Company needs to "catch up" simply is not sufficient. Second, the Company says it needs to "catch up" on the programs listed in Exhibit 4, which does not necessarily mean projects in the Critical Infrastructure Program. Exhibit 4 includes projects categorized as regulatory mandated projects, critical infrastructure projects, programmatic site improvement projects and user requests projects.

In sum, Con Edison has not spent near the requested \$25 million in the past five years, and instead has spent an average of \$16.5 million over that period. The Company has failed to provide any evidence that the Rate Year will differ

significantly from the experience of the past five years. Accordingly, Staff recommends that the Commission adopt a forecast of Rate Year capital expenditures of \$16.5 million for Critical Infrastructure Program.

**ii. Storm Hardening & Other Shared Services
Capital Programs**

In its update/rebuttal testimony, the Company updated its request with regard to cybersecurity upgrades which included updated capital expenditures and O&M expenses (CE Shared Services, R/U, pp. 10-22). Staff does not oppose this updated request. In addition, the Company updated its Storm Hardening and Astoria East Yard projects (CE Shared Services, R/U, pp. 3-10, 22-27). These are both capital programs, for which Staff understands the Company does not anticipate making capital expenditures until after the end of the Rate Year (CE Shared Services, R/U, pp. 7, 25-26). Accordingly, Staff recommends that the Commission take no action with regard to these two programs when it sets rates for the Rate Year.

i. Deferred Fuel

Con Edison defers the difference between its actual fuel costs and the base cost of fuel collected from customers. The amounts deferred are subsequently reversed in the month or months in which the related fuel costs are reflected in customer bills. In its initial filing, the Company proposed to use the historic three-year average of deferred fuel balances to forecast its rate year electric and steam deferred fuel balances (Exh. 313, p. 156). This methodology represents a departure from that used in previous cases, in which the Company relied on its forecast of fuel costs to project its rate year deferred fuel balances (Staff Accounting Panel, p. 127). The Company now claims fuel costs are difficult to forecast, and therefore historic information provides a more reasonable basis (Exh. 313,

p. 156). The Company, however, does rely on its forecast of fuel costs in the development of its forecast of rate year electric and steam working capital (Staff Accounting Panel, p.128).

Staff recommended using the Company's fuel cost forecast to calculate the rate year deferred fuel balances (Staff Accounting Panel, p. 128). Staff found this approach reasonable because it directly linked the deferred fuel balances with the Company's forecast of the underlying rate year fuel costs and its consistency with past practice.

Con Edison argues the use of a three-year average of deferred fuel balances tends to smooth variances over time, and is far more reasonable than trying to forecast future fuel costs (CE Electric Accounting Panel R/U, p. 109). The Company also claims that Staff's adjustment to increase the deferred steam fuel balance is inconsistent with its proposal to lower the cost of fuel included base rates (CE Steam Accounting Panel R/U, p. 75).

Con Edison's reliance on past deferred fuel balances based on past fuel costs is unreasonable since it has absolutely no connection to the fuel costs the Company is forecasting in the rate year, and is inconsistent with its proposal to use the fuel forecast for rate year working capital requirements (Staff Accounting Panel, p. 128). Finally, Con Edison's assertion that Staff has conflicting proposals is erroneous. Although Staff is proposing to lower the base cost of fuel for steam service, it will not impact the forecast of deferred steam fuel cost balance since the lower cost of fuel as proposed by Staff is offset by an equivalent decrease in forecasted steam fuel costs. Therefore Staff recommends that its proposed rate year deferred fuel balances be adopted.

j. FIT Interest Refund

In Direct, Staff recommended, based on Con Edison's response to DPS-389 (Exh. 313), to remove from electric rate base the \$1.506 million related to a federal income tax (FIT) refund receivable (Staff Accounting Panel, p. 129). In rebuttal, the Company indicated that it accepted the adjustment, however its update/rebuttal electric revenue requirement calculation still include the FIT balance (CE Accounting Panel R/U, p. 9). Staff inquired about the inconsistency in the Company's update/rebuttal presentation, and the Company indicated that upon further review, the adjustment to eliminate the \$1.506 million FIT balance from rate base should not be made.

The Company claims that after submitting its response to DPS-389, it determined that the Company had already refunded to customers the FIT interest refund in Case 07-E-0428. As a result, it maintains that the balance should remain in rate base until the Company recovers the amount previously refunded to customers. Staff verified the Company's claim and agrees that no adjustment to the Company's revenue requirement is necessary at this time.

k. Mount Vernon Properties

To facilitate site access and to meet remediation requirements, Con Edison purchased property adjacent to a former manufactured gas plant (MGP) cleanup site in Mount Vernon, NY (Exh. 313, pp. 223-224). The Company states that the purchase of the Mount Vernon properties and pursuing an unrestricted use cleanup was the best option available to the Company to remediate these properties in a cost-effective manner (CE Electric Accounting Panel R/U, p. 111). In its initial filings, the Company included the allocated purchase value of the Mount Vernon properties as part of its forecasted rate year rate bases

for electric, gas and steam operations (CE Electric Accounting Panel Direct, p. 131).

The remediation activity at the Mount Vernon properties has been completed and the Company has no future utility use for the properties (Exh. 313, pp. 224-225). The Company is currently marketing the properties for sale (Exh. 313, pp. 224-225). Therefore, they no longer provide any current or future use to ratepayers. As the properties are not used and useful nor held for any future utility purpose, Staff recommends these properties denied admission to rate base (Staff Accounting Panel Direct, p. 131). Additionally, Staff recommends all costs (O&M, depreciation, property tax expense, etc.) associated with the properties be removed from the revenue requirement (Staff Accounting Panel, p. 131). In fact, the Company never supported any related costs to this property, and should not recover unsubstantiated costs.

1. EB/Cap

Staff recommends, consistent with our adjustment removing expenses associated with Con Edison's SRIP from rate year O&M expense, that the Commission remove the capitalization supporting the Company's SRIP from the rate year forecast of EBCap. In rebuttal, the Company indicates that because it does agree with excluding the costs of the SRIP from rates, it does agree with this related adjustment (CE Accounting Panel R/U, pp. 112-113). Consistent with Staff's recommendation to exclude expenses associated with the SRIP from rates, this related adjustment must be also reflected in the rate year.

X. Reconciliations

a. Net Plant

The Company proposes to continue the downward reconciliation of net plant for the electric, gas and steam

business, based upon a single net plant target with a limited opportunity for upward reconciliation where the reason for exceeding the aggregate net plant target is expenditures that result from circumstances outside the Company's control (Muccilo Electric Direct, p. 53-60). For electric operations, the Company would continue to address capital expenditures associated with the Enterprise Resource project on a stand-alone basis.

We recommend the Commission continue the downward-only reconciliations of net plant targets for all three services and that such reconciliation be applied to the specific categories of electric transmission and distribution, electric production, shared services, electric municipal infrastructure, gas transmission and distribution, gas municipal infrastructure, steam production, steam distribution and steam municipal infrastructure (Staff Policy Panel Direct, pp. 36-39). We also recommend that the Commission require the Company to separately track all storm hardening investments and that they too be subject to downward reconciliations on all carrying charges to allow Staff to monitor the Company's progress on this major new initiative and to simplify accounting for any city, state or federal aid or property tax relief related to the storm hardening investments (Staff Policy Panel, Direct, p. 49).

Finally, Staff took the position that Con Edison should not have an opportunity for upward reconciliation of carrying charges when exceeding the aggregate net plant targets resulting from circumstances outside the Company's control (Staff Policy Panel Direct, pp. 39-40). The Company should be more than capable of managing the risk of having to spend more than forecasted in the rate year, either by deferring or eliminating other projects or by foregoing the return on the added investment for the short period of time until rates are

reset, at which time it will earn a return of and a return on such investments for the life of the projects, if those investments are determined to be prudent and used and useful (Staff Policy Panel Direct, p. 40).

In rebuttal, Con Edison asserts that the Staff proposals take an existing asymmetry that favors customers over investors to a new extreme (Muccilo Electric Rebuttal, p. 25). The Company states that its proposals are consistent with its improved budgeting process, whereby the Company prioritizes and optimizes capital expenditures across categories of expenditures and consistent with the current reconciliation for gas which has a single target (Muccilo Electric Rebuttal, p.33) and that our recommendation imposes significant limitations on the Company's ability to manage risk (Muccilo Electric Rebuttal, p. 35). The Company asserts that absorbing carrying charges on expenditures above forecasted amounts until rates are reset is disingenuous and not a risk management tool. Mr. Muccilo argues that exposure to absorbing increased costs should be reasonably balanced against the opportunity to retain the difference between forecasted expenditures and actual expenditures that are lower than anticipated and that the net plant reconciliations proposed by both the Company and Staff provide all such savings to customers (Muccilo Electric Rebuttal, p. 36).

The current reconciliation mechanisms have provided ratepayers with important protections against under-spending that would otherwise not be captured through traditional rate making. Since the Company's budgeting process has improved over the last several years and is described by Con Edison as being comprehensive and disciplined (Muccilo Electric Direct, p. 63), the Company should be able to forecast and manage its budget by category with greater accuracy. The Company does in fact have control over the timing and magnitude of its spending and

slippage in construction has been known to occur. Perhaps more importantly, as we explained in testimony the unreliable plant-in-service model used by the Company in these Cases hindered Staff's ability to audit the Company's capital net-plant forecasts, and provides further support that these downward reconciliation mechanisms are warranted (Staff Policy Panel Direct, pp. 34-36).

b. Property Taxes

Currently, for each utility service Con Edison is deferring the difference between its actual property tax expense and level reflected in rates on a shared 80%/20% basis between customers and shareholders (Staff Accounting Panel, p. 119). Further, the Company's benefit or exposure is capped at 10 basis points on equity annually (Staff Accounting Panel, p. 119).

Con Edison proposed a full and symmetrical property tax reconciliation mechanism of property taxes for each service. The Company maintains that the Company's property taxes are subject to the vagaries of municipal management, economic circumstances, and political influences (Mucillo Electric Direct, p. 45-46). The Company cites New York State's 2% property tax cap law as an example, despite the fact that it did not impact New York City taxes (Mucillo Electric Direct, p. 46) (CE Property Tax and Depreciation Panel Direct, p.46). The Company also points out how a small change in New York City tax rates can produce large impacts on the Company's City property tax expenses (Mucillo Electric Direct, p. 46). The Company claims that it is very difficult to predict New York City tax rates, and there have been large variations in the rates that were unexpected (CE Property Tax and Depreciation Panel Electric Direct, p. 47). Moreover, the Company points out that in Case 08-E-0539 the Commission provided for a full and symmetrical reconciliation of property taxes, and claims that the same

reconciliation is applicable here (Mucillo Electric Direct, p. 48). Finally, the Company claims that there should be no concern that full reconciliation would diminish the Company's incentive to minimize its property taxes (Mucillo Electric Direct, p. 48).

Staff recommended against providing the Company a full and symmetrical property tax reconciliation mechanism. Staff noted that in this proceeding the Commission would be setting rates for just one year, and such a mechanism is not employed by the Commission in a single year rate plan (Staff Accounting Panel, p. 119). Staff noted only one instance, Case 08-E-0539, where the Commission allowed a full reconciliation in a single year rate plan (Staff Accounting Panel, p. 119). Staff pointed out that this was the result of the Commission giving appropriate consideration to the potential upside risk to property taxes due to the 2008 economic downturn that the Commission considered unique (Staff Accounting Panel, p. 119). Finally, Staff explained that most of the property tax data will be known to the Commission and that information can be reflected in the Commission's rate Order, therefore a reconciliation mechanism is unnecessary (Staff Accounting Panel, pp. 119-120).

The Company argues that Staff's contentions should prevent the Commission from approving the Company's property tax reconciliation mechanism (CE Property Tax and Depreciation Panel Electric R/U, p. 131). The Company considers Staff's view of the Commission decision in Case 08-E-539 as overly narrow (CE Property Tax and Depreciation Panel Electric R/U, p. 131). According to the Company, the Commission recognized in the 2008 case that a reconciliation mechanism, such as the one they are proposing here, is not prohibited and can be justified (CE Property Tax and Depreciation Panel Electric R/U, p. 131).

The Company also contends that Staff overstates what property tax information will be known before the rate year (CE Property Tax and Depreciation Panel Electric R/U, p. 133). The Company states that with respect to NYC taxes, only information for the first half of the rate year will be known (Con Edison Property Tax and Depreciation Panel Electric R/U, pp. 133-134). The Company indicates that the same timing applies to school taxes and for all taxes based on a calendar year, none will be known as of January 1, 2014 start of the rate year (CE Property Tax and Depreciation Panel Electric R/U, pp. 134).

Staff views the Commission decision in Case 08-E-539 as not as narrow as the Company suggests. The Commission took into account the unique uncertain economic conditions that existed in the fall of 2008 that do not exist today. Therefore, the Company's suggestions that similar, if not identical, conditions exist today is false. As a result, the Company's proposal for a full reconciliation mechanism must be rejected.

Although less tax information than what Staff suggested will be available to the Commission, more than half a year's tax information will be available to make a fair and reasonable forecast. Staff has taken limited exception to the Company's own rate year forecast, and by further reflecting latest know information the forecast should be less subject to material misstatement.

As noted earlier, there is the potential for the Company's NYC property taxes to be reduced by roughly \$75 million effective July 1, 2013 because of reduced tax rates. Since the potential reduction is material, Staff recommends that the Company be directed to provide impacts to Staff and/or the Commission before actual impacts can be properly reflected in these proceedings. Should the Company not provide the impacts as directed, the Commission should then, and only then, consider

implementing a property tax reconciliation mechanism to capture the potential tax expense reduction for customer benefit. As an alternative to the Company's full reconciliation, the Commission could continue the existing property tax reconciliation mechanism or a modified version thereof.

c. Municipal Infrastructure

The Company proposed that full and symmetrical reconciliation mechanisms replace the partial and asymmetrical reconciliation mechanisms related to municipal infrastructure O&M expense currently in effect under the Company's electric, gas and steam rate plan (Muccilo Electric Direct, p. 50).

We disagree with this proposal as the current reconciliation mechanisms for Con Edison are part of a joint proposal for a multi-year rate plan that was adopted by the Commission. Here, in the instance of a fully litigated proceeding setting rates for one year, the Commission should adopt the Municipal Infrastructure O&M expense levels proposed by the Staff Municipal Infrastructure Panel, with no reconciliation, upward or downward (Staff Policy Panel Direct, pp. 40-41).

In rebuttal, the Company states that the Commission recognizes that municipal infrastructure expense are subject to material variation in the near term by adopting reconciliation mechanisms in multi-year rate plans that apply to all years of the plan, including the first rate year (Muccilo Electric Rebuttal, p. 26). He asserts that that projected costs and expenses must be reasonable in light of anticipated circumstances and that it is not reasonable to impute productivity for both defined and undefined activities and then limit the Company's ability to achieve those initiatives by significantly constraining the Company's flexibility to manage its business without being subject to a myriad of performance

metrics and potential penalties, or exposed to non-recovery of significant expenses while at the same time being required to refund to customers savings and less than anticipated spending in other discrete categories (Muccilo Electric Rebuttal, p. 27). Mr. Muccilo also states that the Company's interference projects are subject to material changes under no direct control of the Company (Municipal Infrastructure Support Panel Rebuttal, pp. 25-26) and that interference is not like any other O&M expenses (Municipal Infrastructure Support Panel Rebuttal, p. 28).

While it is true that in multi-year rate plans the reconciliation mechanisms typically apply to the first year as well as other years, there are other gives and takes that result in the sharing of risks during the entire term of the rate plan. Under our recommendation, the Company will have the incentive during the rate year to manage these costs like any other O&M expense. For example, decisions to use Company labor versus contract labor, or straight time versus overtime, or to take advantage of combining municipal infrastructure work with other aspects of the Company's O&M projects and programs are all decisions that are under Con Edison's control. With a symmetrical reconciliation as proposed by the Company, that incentive does not exist. For these reasons, our recommendation should be adopted by the Commission.

d. Major Storm Reserves and Sandy Costs

i. Electric

The Staff Policy Panel recommended modifications to the electric major storm reserve mechanism to add conditions necessary to discipline Con Edison to act efficiently and effectively when incurring major storm expenses (Staff Policy Panel Direct, pp. 68). We recommend specific modifications based on the mechanism currently in place for the National Grid Electric business, addressing: the definition of a major storm;

what costs should be included or excluded; record keeping; the inclusion of a per storm deductible; and, the time period during which the Company can claim incremental storm expenses against the deferral mechanism (Staff Policy Panel Direct, pp. 69-72).

In rebuttal, the Company proposes a further modification to the existing electric storm cost deferral mechanism. Con Edison requests that the mechanism capture storm preparation costs. The Company proposes to include costs incurred to mobilize outside contractors and mutual aid crews from other utilities to assist in preparing for the onset of a storm and in restoration efforts (Muccilo Electric Rebuttal, p. 17). It explains that this could include the cost of soliciting mutual aid earlier upon the expectation of a storm where such aid may be needed. It proposes to be able to charge these costs to the storm reserve even if a storm does not materialize (Muccilo Electric Rebuttal, pp. 16-17).

The Company opposes establishing any list of excludable major storm expense items other than on a prospective basis; meaning that if such a list is established, it should apply only to major storms occurring thereafter (Muccilo Electric Rebuttal, p. 38). It also rejects our proposal to limit major storm expenses to those incurred within 30 days following restoration of the ability to serve all customers, stating that the 30 day interval is arbitrary and that Staff cited no instances where the Company's performance supported the need for such a requirement. Finally, Con Edison also rejects our storm deductible proposal, stating that Staff presents absolutely no support for its assertion that some portion of the incremental storm expense will reduce the Company's future normal O&M costs (Muccilo Electric Rebuttal, pp. 38-40.)

Staff's proposed revisions to the electric major storm expense deferral mechanism should be adopted by the Commission.

Recent storms have shown that costs can rise to very significant levels. Without these provisions, the Company's actions could result in the less efficient use of resources resulting in an even higher cost to ratepayers. For example, without a storm deductible, ratepayers could end up paying for certain O&M expenditures twice, once through base rates which include recovery of on-going O&M programs, and again through the incremental major storm expense deferral.

The Company's request to be able to charge storm preparation costs to the major storm reserve even if the storm does not materialize should also be rejected. The intent of the major storm reserve is to address costs specifically related to a major storm as defined in 16 NYCRR Part 97. The costs incurred to prepare for any potential storm should already be included in the Company's base rates. The Company's proposal is another example of an apparent theme in the Company's update and rebuttal testimony to eliminate all of the risks of doing business from shareholders and place them upon the backs of ratepayers.

ii. Gas & Steam

The Company proposes to establish storm reserve accounting for its gas and steam services. It notes that although past major storms did not have a material impact on steam or gas service, that situation changed with Hurricane Sandy, during which the Company's steam and gas services experienced significant damage and/or incurred significant costs from flooding. It proposes to recover the new reserve in gas and steam rates based upon an average of storm response costs during an historical period, subject to reconciliation for actual costs incurred, comparable to the storm reserve accounting in place for its electric service.

Staff disagrees with the Company's proposal. Con Edison has never lost service to 10% of its gas or steam customers, the threshold for the electric service major storm definition, other than during Hurricane Sandy. In addition, the Company has not segregated or separately tracked storm costs for either its gas or steam services for over ten years. Without a historical financial basis to support the request, we recommended against the Company's proposal and suggested that if a storm of Sandy's magnitude were to impact the Company's gas and/or steam system, the Company has the right to file a petition with the Commission to defer incremental gas and/or steam storm related costs. In fact, on May 3, 2013, the Company filed such a petition, seeking authorization to defer incremental costs associated with the restoration of steam service following Superstorm Sandy (Staff Policy Panel Direct, pp. 64-67).

In rebuttal, the Company rejected our proposal asserting that together with other Staff proposals they would subject the Company to a dramatic increase in risk of non-recovery of necessary costs of providing safe and reliable service, significantly limit the Company's flexibility to manage its business and operations in a cost-effective manner, could limit the Company's ability to achieve Commission objectives, and limits the potential for multi-year rate plans (Muccilo Steam Rebuttal, pp. 18-19).

Our recommendation does not impact the Company's ability to recover costs that are necessary to provide safe and adequate service, nor does it limit the Company's flexibility. It simply recognizes that there is no immediate need to increase gas and steam rates or provide immediate deferral for costs that, based on past experience, are not likely to materialize in the rate year. Therefore, the proposal to establish reserve

accounting for gas and steam storm costs should be rejected by the Commission.

iii. Sandy Costs

Staff testified that, given the significant level of deferred major storm costs from calendar years 2010, 2011 and those related to Superstorm Sandy, the review of these expenses cannot be completed in the rate case process (Staff Policy Panel Direct, p. 73). This problem is further exacerbated by the fact that the Company's filing included few details of these deferred expenses. While our proposed electric revenue requirement includes recovery of \$26.1 million for non-Superstorm Sandy deferred storm costs, which represents an amortization of one-third of the \$78.3 million currently deferred; and \$80.2 million for Superstorm Sandy related costs, which represents an amortization of one-third of the \$242 million currently deferred as indicated by the Company's informal update, the Commission should make these amounts subject to refund based on its review and approval of the underlying costs, based on a Commission established review and approval process (Staff Policy Panel Direct, p. 72-74).

In rebuttal the Company states that it has no objection to Staff reviewing the Company's deferred major storm costs and that it intends to provide Staff with additional Superstorm Sandy cost detail not long after the update/rebuttal filing. The Company states that it will continue to work with Staff and provide its support and documentation for major storm costs, however, it is unclear to the Company why there is a need for a new review process (Muccilo Electric Rebuttal, pp. 41-42).

On Friday, July 26, 2013, the Company filed in these proceedings a cost report relating to Superstorm Sandy. It then filed a clarification on July 29, 2013 explaining that the July 26 filing provides the Commission, Staff and other interested

parties a perspective of the cost data disaggregated into categories and subcategories of expenses, including for Contract Services (including, for example, mutual aid), Incremental Company Labor, Materials and Supplies and Other expenses. It stated that extensive detail regarding these costs is available and the Company views the next step in the process as working with Staff to determine the nature of the filing sought by the Staff Policy Panel "demonstrating the incremental nature of the major storm expense and a demonstration of how the expense is related to a major storm event" and to prepare and submit the appropriate demonstrations.

Staff recognizes the Company's initial step in providing information to demonstrate the major storm related costs and Staff will work with the Company to identify the information that should be included. The Commission should nevertheless require that any cost recovery that it provides in the rate year and beyond be subject to refund, pending its review and final approval of such costs and their recovery from customers.

e. Storm Hardening Surcharge

The Company included recovery of capital expenditures for proposed storm hardening through base rates. Additionally, it proposes that a revenue surcharge mechanism be established to fund any storm hardening expenditures or initiatives it pursues above and beyond those allowed in base rates (Muccilo Electric Direct, p. 68). The Company claims that a surcharge mechanism will facilitate its investment in storm hardening projects that may be developed via Company, governmental and/or other stakeholder processes outside the traditional rate case process. Con Edison asserts that the mechanism will allow it the flexibility to respond to future recommendations and actions

related to storm hardening in a timely manner (Muccilo Electric Direct, p. 69).

We recommended that the Commission reject the mechanism proposed by the Company, or any other surcharge. In this context, a surcharge is an extraordinary ratemaking measure that would provide the Company immediate recovery, without rate case review, of all carrying charges on projects above and beyond the capital expenditure carrying charges embedded in rates (Staff Policy Panel Direct, p. 45). Furthermore, such coverage would only be effective for a portion of the rate year; or, if the Company is in a multi-year rate plan, the period of time remaining under that plan. The rate case process provides for a comprehensive analysis of those plans and forecasted expenditures once the complete details and plans are available (Staff Policy Panel Direct, p. 46).

In rebuttal, Con Edison states that a number of parties opposed the storm hardening surcharge and that the Company plans to pursue the concept in the context of the Storm Hardening Collaborative (Muccilo Rebuttal, p. 36).

A storm surcharge is not necessary. The various storm hardening projects and programs being discussed in the collaborative are multi-year initiatives that can be developed, reviewed and presented in the normal rate case process. The collaborative process should not (nor should it be permitted to) produce initiatives that must be done immediately and therefore require the extraordinary cost recovery through a storm surcharge mechanism. In addition, the rate case process allows for consideration of the impacts of storm hardening on other capital expenditures to determine if certain other projects may be deferred or rendered unnecessary due to the storm hardening initiatives. Allowing such costs to be passed through a surcharge mechanism bypasses such considerations. For these

reasons, the Company's storm hardening surcharge should be rejected by the Commission.

f. New Laws, including pending state and federal initiatives

The Company requests an increase in O&M expense of \$800,000 to support new mandated in-line testing of gas transmission pipelines associated with the Department of Transportation Pipeline Safety Act of 2011.²⁵ The Company claims that because it is difficult to predict the full impact of the Department of Transportation regulations during the rate year, it is proposing that the Commission provide the Company the opportunity to defer O&M expense in excess of \$800,000. Staff disagrees with the Company's deferral proposal for a one year rate case (Staff Policy Panel Direct, pp. 41-42). Similarly, Company's direct testimony includes a proposal for the recovery of capital investments and O&M expense that may be incurred to address the retirement or mothballing of New York City generation or the shutdown of Indian Point Units 2 and 3 (Electric Infrastructure and Operations Testimony Direct, pp. 119-120). We rejected this proposal because the cost recovery of Company investments and activities related to the Indian Point replacement is being addressed in a separate proceeding, Case 12-E-0503.

On rebuttal, the Company claims that our proposals represent a gross imbalance between the interests of customers and investors (Muccilo Electric Rebuttal, p. 24). Mr. Mucillo claims that we repeatedly reject provisions designed for the Company to recover reasonable costs not forecasted in rates and generally outside the Company's control, while seeking to capture for ratepayers potential savings and avoided costs

²⁵ The Staff Gas Safety Panel does not oppose the \$800,000 request and it is included in Staff's proposed revenue requirement.

through downward-only reconciliations and cost savings imputations. As noted above, Mr. Muccilo views our proposals as taking existing asymmetry that favors customers over investors to a new extreme (Muccilo Electric Rebuttal, p. 25).

In addition to rebutting Staff's opposition to the cost reconciliation and deferral requests included in the Company's direct testimony, the Company additionally requests the authority to defer incremental costs related to various proceedings and initiatives. The Company claims that it would be appropriate to provide for deferral of the incremental carrying charges associated with any incremental inventory level that results from the current Commission Case 13-M-0047, Proceeding on Motion of the Commission to Examine Utility Shared Critical Equipment and Supplies (Muccilo Electric Rebuttal, pp. 17). In addition, Mr. Muccilo requests that Con Edison be authorized to defer incremental costs related to Case 13-E-0140, Proceeding on Motion of the Commission to Consider Utility Emergency Performance Metrics (Muccilo Electric Rebuttal, pp. 18). The Company also claims that the chief executive officer certification requirement of the new Public Service Law Section 65(15) will significantly increase incremental costs to the Company and it therefore requests that the Commission authorize the Company to apply deferral accounting to the incremental compliance costs (Muccilo Electric Rebuttal, pp. 18-19). Finally, the Company claims that cyber and physical security matters are subject to evolving requirements and technologies and therefore requests authorization to apply deferral accounting for O&M expenses and carrying charges on capital investment in excess of those reflected in rates (Muccilo Electric Rebuttal, pp. 20).

As we stated in our direct testimony, there have been no new requirements enacted as a result of the Pipeline Safety

Act and therefore any additional costs are speculative (Staff Policy Panel Direct, p. 42). Staff argued that if any new requirements are enacted and compliance costs can be reasonably forecasted, the Company can include those estimates in future rate filings. As to the costs incurred due to other generation retirements that are not included in the Company's forecast, these should be handled through the Company's budget management process, as they have been in the past, and the Company may, as always, file a petition with the Secretary seeking relief if these costs are material (Staff Policy Panel Direct, pp. 42-43).

The Company's additional requests for deferral of incremental costs related to the various proceedings and initiatives create the appearance that the company desires to operate in a risk-free environment. The Commission should not grant these requested authorizations to defer costs that have not been quantified or that will be addressed in each of the specific proceedings referred to above.

Finally, Con Edison proposes to modify the existing deferral accounting for expense changes due to legislative, regulatory and related actions to include changes in Company revenues due to such circumstances (Muccilo Direct, p. 45). Due to the Company's failure to provide any basis for the proposed modification, Staff disagrees with the Company's proposals to modify the existing deferral accounting for expense changes due to legislative, regulatory and related actions to include changes in Company revenues (Staff Accounting Panel, p. 145).

In rebuttal, the Company states the basis for the modification is to remedy a flaw in the provision that became apparent when the Company eliminated its EDDS rate schedule (Muccilo R/U, pp. 30-31). Since the revenues generated from EDDS were not subject to reconciliation through the Company's electric RDM, and the new laws provision does not provide for

the changes in revenues, the Company never recovered those revenues (CE Muccilo R/U, pp. 30-31).

The Company's basis for the modification is not compelling. The Company acknowledges the revenues related to the elimination of the EDDS rate schedule did not meet the materiality threshold; thus the Company was not materially financially harmed by this event (CE Muccilo R/U, p. 31). In addition, as further support for its modification, Con Edison refers to a recent Commission Order in which the Commission adopted a similar change as the one requested by the Company (Muccilo, R/U, p. 31). The Order referred to by the Company was the result of a multi-year agreement between the Commission and another utility. Therefore, the circumstances that led to the adoption of the change in that proceeding is not necessarily applicable in the context of a one year litigated proceeding. Based on the lack of compelling support for this modification, Staff recommends the existing deferral accounting for expense changes due to legislative, regulatory and related actions not be modified to include changes in Company revenues.

g. Amortization Periods

Con Edison currently recovers SIR related program costs over a ten year period (Staff Policy Panel Direct, pp. 57-58). In Case 07-E-0523, the Commission determined that a ten-year amortization was warranted for Con Edison given, among other things, the rising rate levels that the Company was experiencing (Staff Policy Panel Direct, p. 58). The Company proposes that the current amortization be reduced from ten to five years (Company Accounting Panel Direct, p. 158). According to the Company, the change can be accomplished with minimal bill impacts and will reduce costs to customers by lowering the carrying charges on the unamortized balances reflected in rate base (Staff Policy Panel Direct, p. 58). In

light of the absence of upward rate pressure in these proceedings, Staff agrees that the amortization associated with the recovery of SIR related program costs be shorted from ten to five years (Staff Policy Panel Direct, p. 58).

**h. Existing & Proposed Deferral Accounting/
Reconciliations**

In its initial filing, the Company proposed to continue, modify, and/or terminate the use of deferred accounting or reconciliation mechanisms for a number of items for each of its services (Muccilo Direct, pp. 39-77). In addition, the Company proposed new deferred accounting related to management variable pay (Muccilo Direct, p. 52). As shown in Exhibit 312, Staff recommends the continuation of deferred accounting treatment and reconciliation mechanisms for a number of items for each of the Con Edison's services (Staff Accounting Panel, p. 147). In addition, Staff agrees with the Company's proposal to defer for the benefit of ratepayers any management variable pay allowance in rates that is not paid out in the rate year (Staff Accounting Panel, p. 147). In rebuttal, the Company proposed additional deferred accounting treatment for costs related to the following: Storm mobilization; carrying charges associated with incremental inventory levels as a result of the Commission proceeding in Case 13-M-0047; O&M and carrying charges on capital to comply with the new requirements as a result of the Commission proceeding in Case 13-E-0140; incremental costs to comply with new requirements contained in PSL §61(15); and O&M expenses, as well as, carrying charges on capital in excess of those reflected in rates to enhance the Company's cyber security (CE Muccilo, R/U, pp. 12-20).

The additional requests for deferred accounting treatment, for the most part, are related to ongoing Commission

proceedings.²⁶ Therefore, it would be premature to recommend deferred accounting treatment until the Commission has made a determination in those proceedings as to how utilities should recover any incremental costs associated with compliance. Further, as part of their formal update, the Company had an opportunity to provide updated rate year expenditure forecasts, and therefore deferred accounting treatment is unnecessary and inappropriate in the context of a one-year rate plan. In the event that a change to one of the rate year expenditure forecasts has a material impact on the Company's earnings they are free to petition the Commission for relief or file a rate case. For these reasons we recommend the additional requests for deferred accounting treatment be denied.

XI. Revenue Allocation / Rate Design

a. Electric

i. Electric ECOS

1. Class Demand Study

Allocators

In its direct testimony, the Company presented a Class Demand Study which shows the class demand responsibilities. The study also shows the development of low tension non-coincident demands based on total non-coincident demands and low tension kilowatt hours. The Company uses a five-day, four-hour average to allocate these costs.

Witness Stephens' testimony filed on behalf of NYC argues that Con Edison's use of allocators that are based on five-day four-hour averages, rather than the single highest demand, is improper. The Company does not use the standard single highest hourly or thirty-minute demand reading for each

²⁶ Cases 13-E-0140 and 13-M-0047.

class to develop the allocation factors and Mr. Stephens claims this averaging can have a dilutive effect that distorts the cost of service study results (Stephens Direct, pp. 5-6).

In rebuttal, the Company claimed that the use of allocators based on five-day, four-hour averages rather than the single highest demand recognizes that costs are incurred to meet demands over a broad period (CE DAC Panel Rebuttal, pp. 4-5). Also, this methodology is consistent with National Association of Regulatory Utility Commissioners (NARUC) recommendations and averages out unusual or atypical conditions that may occur on a particular day (CE DAC Panel Rebuttal, pp. 4-5). The use of a 20-hour average methodology has previously been presented in the Company's cost studies and has been accepted by the Commission. Therefore, Staff recommends that the Commission approve the 20-hour average methodology presented by Con Edison.

Sampling

In its original filing, the Company presented a Class Demand Study which used class demand estimates based on studies of sample test customer load profile characteristics and time-of-day profiles from billing data. Sample test data are used to estimate class demands for multiple service classes. For the sampled classes, the test customers were selected by statistically sampling the class populations (Exh. 465 (DAC-1, Schd. 1, p. 1)). Several interveners expressed a lack of confidence in the Company's sample data used to develop the Class Demand Study. The UIU states that all of the conclusions reached in Con Edison's cost studies should be viewed with some skepticism because they relied upon very small sample sizes (UIU Rate Panel Direct, pp. 4-5). NYPA states that the variation between the 2007 and 2010 Embedded Cost of Service (ECOS) study is due to an unreasonable sampling of customers performed by Con Edison (Liberty Direct, pp. 9-10). The City alleges that there

is imprecision in the derivations of customer demands due to the Company sampling only a small fraction of the total number of customers (Stephens Direct, p. 14).

In rebuttal, the Company testified that it keeps samples representative of customer populations through ongoing review and refreshment processes (CE DAC Panel Rebuttal, pp. 7-10). Also, errors in the sampling process have been measured and accounted for by the adjustment factor in the Class Demand Study (CE DAC Panel Rebuttal, pp. 9-10). Con Edison also notes that an increase in sample size does not necessarily lead to more accurate estimates (CE DAC Panel Rebuttal, p. 6).

Based on our review, we believe that the sample data utilized by Con Edison in the Class Demand Study to be valid. Based on the Company's confidence interval (CE DAC Panel Rebuttal, p. 7), we believe the Company's samples to be an appropriate representation of the customer population. Finally, for the reasons previously stated, the updating of samples, confidence intervals, and sampling error should not relate to the width of the tolerance band used in the ECOS study.

2. Embedded Cost of Service Study

NYPA Deficiency

In Con Edison's initial filing, the Company presented an ECOS study in which the NYPA class was \$26.7 million deficient (Exh. 464 (DAC-2, Schd. 1)). The Company did not propose any mitigation measures to this class because NYPA's share of the increase was close to the system average (CE ERP Direct, p. 17). The City claims that the allocation to the NYPA class is disproportionately high and ignores a history of larger than average increases to this class (Stephens Direct, pp. 24-27). The City asserts that NYPA's consistently larger than average increases could only be a result of a change in class composition or usage patterns (Stephens Direct, p. 27). NYPA

witness Liberty also disagrees that the \$26.7 million deficiency, based on the Company's 2010 ECOS study, is an appropriate allocation to be charged to NYPA (Liberty Direct, p. 8). NYPA claims the ECOS study is out of date, and volatility and variations from year to year are underscored by Con Edison's models (Liberty Direct, p. 8).

The City's and NYPA's claims should be rejected by the Commission. The larger than average increases to this service class are intended to address the continuing NYPA deficiency. As long as historical full deficiencies are not recognized in the revenue allocation, NYPA (and its customers) will continue to receive above average increases (CE DAC Panel Rebuttal, p. 4). Contrary to its complaint, NYPA is not being treated discriminatorily, the Company's decision to not apply any mitigation measure to the proposed T&D increase to NYPA is reasonable, uniform, and carefully considered (CE Electric Rate Panel Rebuttal, pp. 7-8).

In our direct testimony, we addressed the Commission's 2008 Con Edison Electric Rate Order in which Con Edison presented a 2005 ECOS study that showed the NYPA class was \$30 million deficient (Staff ERP Direct, pp. 11-13). The full NYPA deficiency was not recognized by the Commission in the 2008 Rate Order or subsequent Rate Orders, compounding the effect of NYPA's deficiency (Staff ERP Direct, pp. 11-13). NYPA is currently underpaying while other classes are overpaying, and therefore subsidizing the under collection of costs from NYPA and its customers. Staff recommends that the Commission implement the results of the Company's 2010 ECOS study and recognize the full deficiencies and surpluses without applying mitigation measures to any of the service classes, including NYPA (Staff ERP Direct, p. 12).

Tolerance Band

In direct testimony, the Company proposed the application of a $\pm 10\%$ tolerance band around the calculated total system rate of return to determine the class revenue responsibilities (CE DAC Panel Direct, p. 28). Classes would not be considered surplus or deficient if the class ECOS rate of return falls within the tolerance band. Classes that fall outside this range would be either surplus or deficient by the revenue amount necessary to bring the realized return to the upper or lower level of the band.

NYPA and NYC propose the use of a $\pm 20\%$ tolerance band around the total system rate of return. NYPA claims that a $\pm 20\%$ tolerance band will permit the use of the ECOS study while taking into account NYPA's concerns about the accuracy of the study (Liberty Direct, p. 4). The City also proposes a $\pm 20\%$ tolerance band be employed due to its concerns about the cost of service study (Stephens Direct, p. 21). Additionally, in rebuttal, the City noted that in the last fully litigated Con Edison case, the Commission approved a $\pm 15\%$ tolerance band (Stephens Rebuttal, p. 3).

In rebuttal, Con Edison states that widening the tolerance band beyond the historically generally accepted $\pm 10\%$ prevents customers from receiving appropriate price signals (CE DAC Panel Rebuttal, p. 21). Tolerance bands are not designed to ensure that all classes are average (CE DAC Panel Rebuttal, p. 21). Additionally, NYC's and NYPA's proposed use of a $\pm 20\%$ tolerance band would further perpetuate NYPA's long-standing deficiency into future years by diluting its true cost responsibility (CE DAC Panel Rebuttal, p. 21).

The proposed use of a $\pm 20\%$ tolerance band by NYPA and the City of New York should be rejected by the Commission. Based on general past practice, class revenue responsibilities

have been measured with respect to a $\pm 10\%$ tolerance band around the total system rate of return (Staff ERP Direct, p. 5; CE DAC Panel Direct, p. 28). We have found no reason or basis to widen the tolerance band around the calculated total system rate of return beyond a $\pm 10\%$ tolerance band. In the 2009 Rate Order in Case 08-E-0539, the last fully litigated Con Edison case, the Commission adopted the use of a $\pm 15\%$ tolerance band, but only to address the use of a 2005 ECOS study that did not reflect significant increases in plant investment and expenses, and changes in load and sales since the study was completed (2009 Rate Order, pp. 204-205). The 2005 study also relied on a dated Class Demand Study.

These problems do not exist here as the Company is utilizing an updated ECOS study (2010 ECOS study). Also, the 2010 ECOS study incorporates the Company's Load Diversity Study which was performed to address the issue of cost-of-service allocation of low tension costs (Staff ERP Direct, p. 7). The results of the Load Diversity Study support the Company's allocation methodology. Therefore, we recommend that the Commission approve a $\pm 10\%$ tolerance band around the calculated total system rate of return to determine the class revenue responsibilities.

Staff's Review of the ECOS Study

In Mr. Stevens' rebuttal testimony, NYC claims that we concluded that the methodology and results of the Company's ECOS study were reasonable without performing any analysis and that we failed to address the inputs to the cost study (Stephens Rebuttal, p. 4). The City is mistaken. Staff performed a broad and thorough review of the 2010 ECOS study. We reviewed in detail the inputs and data used in the study. Our analysis also included a review of all allocators and a comparison of the allocators to previous ECOS studies for Con Edison.

Additionally, Staff's review included IR requests and multiple conversations and meetings with Company personnel to better understand the study. The 2010 ECOS study is also consistent with past methodologies used in previous ECOS studies approved by the Commission. Based on our analysis, the methodology and results of the Company's 2010 ECOS study are reasonable and should be utilized by the Commission.

ii. Revenue Allocation/Bill Mitigation

1. Revenue Allocation

The Company's proposed T&D revenue allocation included first deducting gross receipts taxes from the rate year T&D related delivery revenue increase. Then, rate year T&D related delivery revenues at the current rate level for each service class were realigned to reflect the revenue surpluses and deficiencies based on Table 1A of Exhibit 464. Con Edison allocated its proposed T&D revenue increase to Con Edison and NYPA customers based on the proportion of each class' respective realigned rate year delivery revenues to the total rate year delivery revenues. The Company then added or subtracted the revenue adjustments from Table 1A to the revenue increase allocated to each class to arrive at the total revenue increase for each class (Staff ERP Direct, pp. 9-10).

In our direct testimony, we did not agree with how the Company realigned delivery revenues to balance the surpluses and deficiencies. We recommended balancing the deficiencies with adjustments to those classes which are in surplus to be revenue neutral and to bring the surplus classes to within the tolerance band. This would bring the surplus classes closer to the system rate of return, rather than the Company's proposal to apply the total 2010 ECOS study deficiencies to classes (SC 1 and SC 6) which are already within the $\pm 10\%$ tolerance band around the system rate of return. Balancing the deficiencies by reducing

the revenue requirement of these two service classes will move them well within the tolerance band, while leaving other classes just at the edge of the $\pm 10\%$ tolerance band (Staff ERP Direct, p. 10).

In its rebuttal testimony, the Company agreed with our recommendation to balance the net deficiency with adjustments to those classes which are surplus (CE DAC Rebuttal, p. 22). The Company states that our selection of surplus classes does not deviate from the purpose of ensuring that cost-of-service indications remain revenue neutral in total when performing revenue realignment and that Staff's proposed methodology would further bring the surplus classes closer to the system average rate of return (CE DAC Rebuttal, p. 22). However, the Company disagreed with our calculation used to adjust the surplus classes. The DAC Panel recommends realigning the net deficiency to the surplus classes based on their respective T&D revenues rather than our proposal to realign the net deficiency to the surplus classes using their respective surpluses relative to the overall net surplus. Con Edison's proposal will ensure that the surplus classes fall within the tolerance band after revenue realignment. Therefore, Staff agrees with the new Table 1A (Exh. 90) proposed by the Company which allocates the net deficiency to surplus classes based on T&D revenues.

2. Bill Mitigation

Con Edison proposed mitigation measures based on the Company's proposed revenue requirement, to mitigate bill impacts to certain customer classes. The Company's underlying approach is that no class would receive a revenue decrease or an increase that is more than about 2.5 times the average system increase in an effort to align the ECOS study indications while balancing customer impacts (CE ERP Rebuttal, pp. 8-9). Under the Company's proposal, only the portion of the revenue surplus for

SC 5 Rate II and SC 13 that resulted in a zero overall T&D delivery revenue increase was reflected. Additionally, the Company reflected only the portion of the SC 5 Rate I revenue deficiency for this class that resulted in an overall T&D delivery revenue increase that is 2.5 times the overall system average percent T&D delivery revenue increase (CE ERP Direct, p. 15).

Several interveners proposed bill mitigation measures. The City proposed a uniform mitigation approach where no customer class would receive an increase in its delivery service rate greater than 1.5 times the Con Edison system average increase (Stephens Direct, p. 26). Also, in the event the revenue increase is reduced significantly, the City proposed an increase of no more than 4% in delivery service charges to any class (Stephens Direct, p. 26). If the Commission accepts the $\pm 10\%$ tolerance band for the ECOS, NYPA proposed that no more than 1.25 times the average increase be applied to NYPA rather than the 1.7 times the average increase proposed by Con Edison (Liberty Direct, p. 12). UIU proposed that no class receive more than two times the average system increase and no class is to receive less than two-tenths of the average system increase (UIU Rate Panel Direct, p. 37).

The proposals offered by the Company and other parties should be rejected. The Commission could decide to recognize a portion of the deficiency or surplus to mitigate the individual class impacts. However, any mitigation measures should be considered in combination with the final electric revenue requirement determination so that the combined impacts can be considered. Applying a cap to the system average increase or a percent of delivery service revenues, without having a final revenue requirement determined by the Commission could further

exacerbate the surplus/deficiency indications of the classes (CE ERP Rebuttal, p. 10).

We recommend that the full deficiencies and surpluses of all classes be recognized by the Commission (Staff ERP Direct, pp. 12-13). We continue to believe that this recommendation is appropriate because the impacts to those classes that are deficient will be significantly reduced by Staff's recommended revenue requirement decrease. There is no better time to recognize deficiencies than when the impacts to the service classes would be mitigated by a rate decrease.

iii. Rate Design

1. Voluntary Time of Use Rate

The Company's Electric Rates Panel proposes a new voluntary time of use rate (VTOU) SC-1 Rate III (CE Electric Rate Panel (ERP) Direct, pp. 38-44) for customers charging Plug-in Electric Vehicles (PEV). Staff supports the proposed SC-1 Rate III design as reasonable and more effective at providing a signal to reduce peak loads (Staff ERP Direct, p. 16 and Graves Direct, p. 6). The proposed VTOU rate would provide an incentive to customers with PEVs to charge their vehicles at times that have the least impact on the transmission and distribution (T&D) network (CE Electric Rate Panel Direct, pp. 38-44). Maximizing the adoption of the VTOU rate should minimize the impact that PEVs have on Con Edison's T&D network (Graves Direct, p. 7). Currently, very few electric customers with PEVs have volunteered to take time of use rate rates (Graves Direct, p. 14). We recommend that the Commission direct the Company to provide an introductory price guarantee in order to overcome customers' fears of being hurt by a TOU rate, thus maximizing the adoption of the VTOU rate and minimizing the impact of PEVs on the T&D network (Graves Direct, p. 30).

The Company does not believe the guarantee is necessary (CE Electric Rate Panel U/R, p. 25). Con Edison points out that while a customer may save over the 12 month period of the guarantee, this would not necessarily be indicative of future results (CE Electric Rate Panel U/R, p. 25). Staff does not dispute this assertion, however, the guarantee we recommend allows customers to experiment with shifting load to off-peak hours and also minimize the financial impact of adding the PEV load to their household. The guarantee certainly gives customers a better idea of the impact of their PEV than a calculator provided online. The guarantee would provide customers more than just a forecast; it provides them a reason to try the TOU rate. Customer surveys show that a significant number of customers thought the guarantee was a reason to like a utility's TOU program and helped to overcome their fears of bills increasing because of TOU rates (Graves Direct, p. 21).

Con Edison's rate panel further argues that our recommended price guarantee eradicates the price signal to customers that the VTOU rate provides (CE Electric Rate Panel U/R, p. 25). Adding a PEV to a household can increase the electric commodity requirements of the household substantially. Under either SC-1 Rate I or Rate III, the customer will purchase more electricity (Graves Direct, p. 8). While it is true that the guarantee lowers the penalty for not responding to prices, it does not diminish the benefit of responding to prices. If one assumes that the customer is taking the VTOU rate in order to benefit from changing their usage pattern, then lowering the penalty to not responding should not significantly affect customer behavior. The Commission should approve the new SC-1 Rate III (VTOU) rate proposed by Con Edison. In addition, the Commission should direct Con Edison to implement the price

guarantee as recommended by Staff witness Graves for PEV owners that volunteer for the VTOU rate.

The Company also proposes that customers that have a meter dedicated to their PEV charger be billed at the SC-2 rate (CE Electric Rate Panel Direct, p. 44). As discussed in Staff witness Graves testimony, Con Edison should be directed to propose in its next electric rate filing a TOU rate with the structure of the SC-1 Rate III for SC-2 customers (Graves Direct, p. 27). While the SC-2 class has a TOU rate, that rate suffers from the same shortcomings of the SC-1 Rate II (TOU) rate, namely a weak price signal and time periods that do not correspond to distribution network peaks. The Company states that absent specific findings supporting alternative pricing options, it should not be compelled to propose an alternate VTOU rate for SC-2 customers (CE Electric Rate Panel U/R, pp. 27-28). If the Commission accepts the proposed SC-1 Rate III, it should direct the Company to develop a similar rate for the SC-2 class.

2. TCC Imputation

In the Company's rebuttal testimony, it stated that the SERP improperly allocated the revenue decrease associated with the reduction in the TCC imputation (CE ERP Rebuttal, p. 5). Pursuant to the Commission's March 25, 2008 Order in Case 07-E-0523, any change in the revenue requirement associated with the change in the level of TCC imputation should only be allocated to the Con Edison service classes. Staff agrees with Con Edison and has modified our revenue allocation to allocate the TCC imputation solely to Con Edison customers, as shown in Exhibit 241.

3. SC 1 Special Provision D

The Company proposed terminating SC 1 Special Provision D, which allows customers with thermal storage systems to have a separate account for off-peak water heating, served

under the VTOU rate. Under its proposal, Con Edison would discontinue service under Special Provision D in ten years, which the Company claims is the average life of water heating equipment, and would accept no new applications for such service after December 31, 2013 (CE ERP Direct, p. 44). The Company proposed to terminate this option for existing Special Provision D customers due to the phase-out of the existing SC 1 VTOU rate and it claims the rate will no longer provide the appropriate pricing signals (CE ERP Direct, pp. 43-44).

We agree with Con Edison's proposal to cease accepting applications for service under Special Provision D after December 31, 2013, as it is reasonable (Staff ERP Direct, p. 18). However, the Company's proposal to phase-out this special provision in ten years should be rejected by the Commission. Customers who have invested in thermal storage devices should be able to use this equipment for its actual useful life, not the useful life determined in a Con Edison study (Staff ERP Direct, p. 18). Under the Company's rate design proposal, existing SC 1 customers taking service under VTOU Rate II are allowed to retain service under that rate (CE ERP Direct, p. 43). Special Provision D customers should also be allowed to retain service under Rate II as well and the Commission should reject the Company's proposed phase-out of this special provision in ten years.

4. NYPA Rate I

The City does not agree with the Company's proposed demand rates for NYPA Rate I, claiming that Con Edison has introduced a significant and unsupported change in designing the demand charge (Stephens Direct, pp. 28-29). These claims should be rejected. The rates presented by the Company in its initial filing reflect and are supported by the ECOS study indications.

5. SC 1 and SC 2 Customer Charges/BPP Charges

UIU believes the Company's proposed SC 1 and SC 2 customer charges and billing and payment processing (BPP) charges to be too high and recommends both reduced customer charges and reduced BPP charges for these classes (UIU Rate Panel Direct, pp. 41, 69-70).

We recommend that the UIU proposal be rejected. The fixed costs incurred to provide service to customers are recovered through the customer charge for each service class. The BPP charges are determined in accordance with the Commission's Statement of Policy on Unbundling and Order Directing Tariff Filings in Case 00-M-0504 (CE ERP Rebuttal, p. 19). The customer charges and BPP charges proposed by the Company are based on the ECOS study indication for these costs and should be approved by the Commission.

6. Inclining Block Rates

The UIU recommends that the Commission continue phasing out the existing declining block rates and, where feasible, move toward modestly inclining block rates which would include higher rates in the final block of usage (UIU Rate Panel Direct, p. 52). The UIU's proposal should be rejected because it would be unreasonable to subject customers to the wide range and magnitude of bill impacts shown in Exhibit 193.

7. Low Income Rates

PULP recommends freezing the rates for customers participating in the low-income program at the current level to strengthen the affordability of Con Edison's electric service for these customers (Brockway Direct, p. 25). The PULP "Proposed Electric Delivery Rates - Low Income" (Brockway Direct, p. 26) should be rejected because other Con Edison customers would be further subsidizing the low-income participants' rates and for the reasons we discuss in the low-income section of this brief.

8. Dynamic Retail Pricing

EDF recommends that Con Edison should transition to dynamic retail pricing that reflects real time cost for the supply and delivery of power (Centolella Direct, p. 6). Additionally, pricing should reflect competitive wholesale energy prices and the Company should develop tools to enable customers to efficiently respond to dynamic pricing.

The EDF proposal is vague and does not discuss which customers should be dynamically priced, the various aspects of ratemaking which must be addressed, or what the customer impacts of this proposal will be. Finally, the testimony ignores PSL §66(27), which prohibits requiring residential customers from taking real time pricing (RTP) or time of use (TOU) rates. Therefore, EDF's proposal of dynamic retail pricing should be rejected by the Commission.

iv. PJM OATT - allocation of costs, recovery mechanism

On February 14, 2013, the Commission issued an Order in Case 09-E-0428 rejecting the Company's cost recovery request and cost allocation proposal for certain new PJM OATT service costs. In its rebuttal testimony, the Company did not modify its cost recovery proposal and continued to propose cost recovery in full through the MAC as "certain other transmission-related charges" (CE ERP Rebuttal, p. 52).

Regarding the allocation of these PJM OATT costs, NYPA witness Liberty supports Con Edison's proposal to exclude NYPA from cost responsibility (Liberty Direct, p. 5). NYPA states that although Con Edison's PJM wheel does provide reliability benefits to all consumers in the region, NYPA also funds transmission and generation resources that provide more than sufficient offsetting reliability benefits to Con Edison customers and the cost responsibility for NYPA resources is paid by NYPA customers while no costs are directly allocated to Con

Edison (Liberty Direct, p. 5). Additionally, NYPA claims it should not be allocated any portion of the PJM OATT charges because it does not benefit economically from the PJM OATT service (Liberty Direct, pp. 15-17). Con Edison provides a similar argument, stating that NYPA relies on upstate generators to serve NYPA's in-City customers and does not benefit from the reduction in Zone J energy prices that result from the PJM OATT service (CE ERP Rebuttal, pp. 54-55). According to Con Edison, NYPA does not benefit economically from the PJM OATT service and therefore the Company sees no compelling circumstances that warrant an approach for recovery of PJM OATT costs other than in full through the MAC as "certain other transmission-related charges" (CE ERP Rebuttal, p. 55).

NYECC does not support the Company's proposal to recover the PJM OATT service charge through an adjustment mechanism. NYECC states that the Company's assertion of volatility in these charges is a sound basis for Con Edison to continue to recover these charges at a reasonable set amount in base rates (Bomke Direct, p. 34).

Staff recommended that all delivery customers, including NYPA, should continue to be allocated a portion of the costs of this contract because all customers in New York City benefit from the PJM OATT service (Staff ERP Direct, pp. 27-28, SEIIP Direct, p. 101). We recommend collecting the costs of this transmission service through the MAC and also through a monthly adjustment mechanism to NYPA customers (Staff ERP Direct, pp. 27-28).

The NYECC proposal to recover the PJM OATT service costs through base rates should be rejected due to the volatility and unpredictability of the PJM OATT charges. Con Edison's and NYPA's cost recovery proposals should also be rejected. Con Edison's and NYPA's argument for allocating the

PJM OATT costs based on economic benefits is flawed. Con Edison stated that the economic benefits related to a particular service classification are not considered in its analysis when allocating costs in the Embedded Cost of Service study (Tr. 2369). When allocating cost components, the concept of whether a service class receives economic benefits from a set of costs should not be considered in determining where such costs should be allocated. Therefore, the allocation of PJM OATT service costs based on economic benefit should be rejected as these charges are directly related to, and are incurred to satisfy, the reliability of Con Edison's transmission and distribution system.

The PJM OATT service provides reliability benefits to all of Con Edison's customers, for example satisfaction of the N-1-1 transmission criterion (Exh. 860). Con Edison is the only load-serving entity in the service territory that is responsible for satisfying the N-1-1 transmission reliability criteria (Tr. 266-267). This standard requires that the Company's facilities be able to survive the loss of its two largest generation and transmission resources without the loss of load, which includes the loss of load associated with the Company's NYPA Delivery Service customers (Exh. 857). The Company states that, "all customers (including NYPA's customers) are exposed to those contingencies and benefit from the reliability enhancement provided by the PJM OATT service" (Exh. 855). NYPA states that it expects the delivery service provided by Con Edison to be subject to the N-1-1 transmission reliability criteria (Tr. 2373. Note that the transcript reflects an error-- "translation" should be "transmission"). If NYPA expects this level of reliability for delivery service, NYPA should be required to pay its portion of the costs necessary to meet this reliability criterion. Therefore, Staff recommends that the

Commission allow the PJM OATT service costs to be recoverable, on a going forward basis, through the MAC and that a portion of the these charges be allocated to NYPA through a Commission approved MAC-like surcharge to recover NYPA's share of these costs.

v. MSC/MAC Residual Provisions

The MAC and MSC tariff provisions list numerous categories of specified and unspecified costs that are recoverable through the MAC and MSC cost recovery mechanisms. In its direct testimony, the Company addressed General Rule 26.1.1, item 14 (Leaf 339) and General Rule 25.1 (a), item 5 (Leaf 329), applicable to the MAC and MSC respectively, and referred to them as "Residual Provisions" (CE ERP Direct, pp. 80-91). According to Con Edison, the Residual Provisions are not limited in their application and should be regarded as applicable (i) to all transmission-related costs that are assessed to the Company by independent or regional system operators like PJM and the NYISO and (ii) to all transmission-related charges that are assessed to the Company by other parties for services necessary for system reliability. Additionally, the Residual Provisions should be viewed as generally applicable to unspecified costs and would serve no purpose if they were deemed to include only costs that are specified and approved prior to recovery (CE ERP Direct, pp. 84-85).

Con Edison's reading of the "Residual Provisions" should be rejected by the Commission. The existence of the MAC and MSC tariff provisions that encompass categories of unspecified costs do not permit the Company to pass through any costs not previously specifically allowed by the Commission. The Company cannot recover unspecified costs without prior Commission review and approval (Staff ERP Direct, p. 30). We

recommended that the Commission direct the Company to modify its tariff to clarify that prior Commission approval for any such charges is required before the Company can collect costs through such charges (Staff ERP Direct, pp. 30-31).

In rebuttal, the Company requested that if the Commission adopts Staff's view, the Commission provide prior approval of NYISO Costs and New York Project Costs because the public interest is served by projects that increase system reliability, provide demonstrated economic benefits, and/or provide public policy benefits (CE ERP Rebuttal, pp. 47-48). The Company proposes that application of the Residual Provisions to the NYISO Costs and New York Project Costs not be subject to a prudence inquiry and claims that cost allocation questions need not be considered when applying the Residual Provisions to the portion of the NYISO Costs and New York Project Costs that are allocated to Con Edison (CE ERP Rebuttal, p. 50). The Company states, given the Commission's continuing refund authority with respect to the MAC and MSC, this process would appropriately balance the need for prompt recovery of costs that qualify for the Residual Provisions with customer concerns that costs be prudent and appropriately allocated (CE ERP Rebuttal, p. 51).

Con Edison's proposal to apply Residual Provisions without prior Commission review and approval, including NYISO Costs and New York Project Costs, should be rejected. The Commission should first determine that the costs are prudent and appropriately allocated prior to their recovery rather than relying on its authority to refund amounts collected in the MAC and MSC from customers. Therefore, Staff's recommendation to require prior Commission review and approval for all Residual Provisions should be adopted.

vi. Business Incentive Rate

While Staff is not addressing "Business Incentive Rate" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

vii. Tariff Changes

Please refer to Section XI.a.iii.

b. Gas

i. Gas ECOS

While Staff is not addressing "Gas ECOS" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

ii. Revenue Allocation

In accordance with Con Edison's 2011 Embedded Cost-of-Service (ECOS) study, the Company allocated costs to the different service classes (SCs)(Exh. 639). Its proposed Rate Year delivery revenue increase applicable to non-competitive charges was as follows: SC 1 (Residential Non-Heat), the minimum charge was increased from \$18.60 to \$19.25, SC 2 (Commercial Heat), the minimum charge was increased from \$30.45 to \$33.00, SC 2 (Commercial Non-Heat), the minimum charge was increased from \$30.45 to \$33.00 and SC 3 (Residential Heat), the minimum charge was increased from \$20.40 to \$22.00 (CE Gas Rate, Direct, pp. 29-30). The remaining non-competitive delivery revenue was allocated to the single rate block for SC 1 and on a uniform percentage basis for the three SC 2 and SC 3 rate blocks (Id., pp. 30-32).

While Staff generally agrees with the Company's ECOS study and revenue allocation, one modification to the rate design for the SC 1 customer charge is warranted (Staff Gas Rates, Direct, Corrected, pp. 15-16). Staff recommends a

decrease to the SC 1 customer charge consistent with our overall class revenue requirement decrease (Id., p. 15). Con Edison argues that its customer charge increase is still below the level indicated by the 2011 ECOS study (CE Gas Rate, R/U, p. 6) and that Staff's justification is flawed because it ignores the objective of moving "fixed costs into fixed charges" (CE Gas Rate, R/U, p. 7). But, its proposal should be rejected.

The Company's proposed SC 1 customer charge is based on its 2011 ECOS study and its proposed Rate Year revenue increase. If the Commission were to adopt Staff's revenue requirement decrease, however, then accepting Con Edison's proposed customer charge would produce an unreasonable rate design for SC 1 because most of the revenue for SC 1 is collected through the customer charge, not the volumetric rate. For example, the SC 1 revenue based on the proposed customer charge increase of \$19.25 (CE Gas Rate, Direct, p. 29) and Staff's SC 1 bills forecast of 8,021,440 is \$154.4 million which is 99.8% of Staff's SC 1 revenue requirement of \$154.6 million (Exh. 960, p. 57) or a difference of just \$234,000. As a result, the volumetric rate for SC 1 would be negligible. Therefore, a decrease to the current SC 1 customer charge by Staff's class percent revenue decrease, which after adjustments and corrections, results in a customer charge of \$16.60 (Staff Gas Rates, Direct, Corrected, p. 15), is reasonable. Any argument that Staff's decreased customer charge is inconsistent with Commission policy of recovering fixed costs through fixed rates is a red herring. As explained, under Staff's revenue decrease, a lower SC 1 customer charge is necessary in order to avoid an unreasonable rate design.

iii. Tariff Provisions

1. Dual-Fuel Minimum Charge

Con Edison proposed that all firm dual-fuel customers

be subject to a minimum charge regardless of their actual allocation with the exception of current large usage customers with an annual allocation above 100,000 therms (CE Gas Infrastructure, Direct, p. 65). The minimum bill for these customers would be equal to two-thirds of their annual allocation. The minimum charge for large usage customers, currently the only firm dual-fuel customers subject to a minimum charge, would continue to be based on two-thirds of 100,000 therms, regardless of their actual annual allocation (Id., p.66).

Staff disagrees and recommends no change to the current dual-fuel minimum charge because the Company has failed to provide any analysis to support the level of this new minimum charge (Staff Gas Rates, Direct, Corrected, p. 18). Staff further recommends that, if the Company pursues similar revisions in the future, it should provide a more detailed analysis and sufficient cost justification (Id., pp. 18-21).

In response, the Company again fails to provide any supporting analysis for its proposal, but rather stated that it is "unreasonable for Staff to expect that the Company would have supporting analysis for an allocation that was determined almost 30 years ago, in an entirely different rate environment and commodity environment" (CE Gas Infrastructure, R/U, pp. 113-114). The Company also stated that current tariff language does not provide adequate revenue to firm customers, for whom the distribution system is built and maintained, because dual-fuel customers have the ability to burn an alternative fuel source (Id.).

The Commission should deny the Company's proposal to extend the dual-fuel minimum charge because, as indicated above, the Company has simply failed to provide any analysis or justification to support its request. Instead, the Company

claims that it is unreasonable to expect it to have supporting analysis for an allocation determined almost 30 years ago. But despite this acknowledgement, the Company believes it is reasonable to extend this outdated allocation to all dual fuel customers (CE Gas Infrastructure, Direct, p. 65) because dual-fuel customers can burn alternative fuels which creates a risk that revenues will not materialize for other firm customers in today's market (CE Gas Infrastructure, R/U, p. 114). This justification is misplaced. The existing tariff language was adopted at a time when dual-fuel customers were more likely to burn alternative fuels because prices were competitive with natural gas. Therefore, in today's market the Company can expect to generate more revenues from these customers without the need to arbitrarily extend the minimum charge to all dual fuel customers regardless of their actual allocation (CE Gas Infrastructure, D, p.67 and CE Gas Infrastructure, R/U, p. 116).

Finally, since the Company projects no incremental revenues from its proposed change, there is no immediate need to impose a minimum charge beyond what currently exists (CE Gas Infrastructure, D, p. 69) and further analysis and sufficient cost justification should be required. Therefore, Staff recommends the Commission reject Con Edison's proposal to extend the dual-fuel minimum charge.

iv. Non-firm Rate Changes

The Company proposes a number of changes to interruptible Rate 1 and Rate 2 rates. The changes the Company's proposes, however, fail to consider the value interruptible customers provide to the local distribution system and in many instances there is insufficient justification for the proposed changes. As discussed below, the vast majority of the Company's proposed changes should be denied and the Company should be required to evaluate the value of interrupting

interruptible customers.

1. Interruptible Rate 1 Rate Structure

Con Edison proposed to eliminate its four priority Rate 1 groups (12 total rate groups) and set one rate for each of the three customer categories; Residential, Non-Residential and PBT Exempt (CE Non-Firm Services, Direct, p. 11). It further proposed a multi-block rate structure consisting of a minimum monthly charge (MMC) for the first 250 therms and two declining rate blocks (Id.). The MMC would consist of \$100 fixed costs and 250 therms at the tail block rate of the otherwise applicable firm service class for a total MMC of \$170 for Non-Residential and PBT Exempt and \$216 for Residential (Exh. 581, pp. 13-23).

While Staff agrees with the proposed block rate structure, we oppose the Company's imposition of a MMC because a MMC for these customers should capture costs incurred by the Company to maintain service, and the additional component of 250 therms priced out at the tail block rate of the otherwise applicable firm rate is not consistent with a fixed charge (Staff Gas Rates, Direct, Corrected, p. 24-26). Staff instead recommends a MMC of \$100 for the first three therms to more accurately reflect the cost of maintaining service for these customers, to be phased-in over three years to avoid rate shock, and an additional rate block (e.g., the next 247 therms) to account for any remaining deficiency (Id.).

Con Edison submits that Staff's recommended MMC is too low arguing that 250 therms is the monthly usage level of a very small customer and interruptible customers should be well above this level to provide any appreciable benefit to its system (CE Gas Non-Firm Services, R/U, pp. 15-16). Con Edison also points out that there is no prohibition to the inclusion of a minimum volume of gas usage in a minimum charge applicable to

interruptible customers (Id., p. 17).

The Company's proposed block rate structure will mitigate the discrepancy between small/large interruptible and firm customers and is, therefore, reasonable (Exh. 581, p. 11). However, the imposition of a minimum contribution from an interruptible customer, above the cost of maintaining an interruptible customer's service, is not. Interruptible customers by definition take a lower quality gas service when it is economical and available, thereby, increasing the efficiency of Con Edison's system for the benefit of its firm customers. This benefit should be recognized in the rate structure being imposed. Simply applying an additional component of 250 therms priced out at the tail block rate of the otherwise applicable firm rate fails to recognize the benefit interruptible customers bring to the system and is not consistent with a fixed charge (Staff Gas Rates, Direct, Corrected, p. 24).

Moreover, while Staff acknowledges that there is no prohibition on the inclusion of a minimum volume of gas usage in a minimum charge applicable to interruptible customers, as proposed by the Company, there is also no mandate that a higher usage be included in that minimum charge. For example, The Brooklyn Union Gas Company's SCs 6C, 6G, 6M have minimum charges based on only 10 therms (PSC No. 12 - 6C Leaf 197-198, 6G Leaf 207-208 and 6M Leaf 217-220) and Keyspan Gas East Corp.'s SCs 12 and 13 have a minimum charges based on only 3 therms (PSC No. 1 SC 12 Leaf 169 and SC 13 Leaf 177). Con Edison, on the other hand, seeks to impose a minimum charge based on 250 therms. Finally, it should also be noted that one of the three rate structures relied upon by Con Edison (CE Gas Non-Firm Services, R/U, p. 17), Niagara Mohawk Power Corporation's SC 6, with a minimum charge inclusive of the first 100 therms, is a transportation gas service applicable to customers capable of

consuming at least 2.5 million therms annually (PSC No. 219 SC 6 Leaf 144), while the Company's interruptible Rate 1 is currently open to all customers. Based on the foregoing, Con Edison's proposed MMC should be denied and Staff's block rate structure should be adopted.

2. Rate 1 Annual Revenue Reconciliation

Con Edison proposed to reconcile all Rate 1 customers on delivery rates only consistent with how interruptible SC 9 Rate 1 transportation customers are currently reconciled (CE Gas Non-Firm Services, Direct, pp. 18-19). Interruptible SC 12 Rate 1 sales customers are currently reconciled on a total bill basis, including the cost of gas supply (Id.). The Company argues that this change is necessary because it assigns its highest cost gas supply to interruptible customers and high supply costs can constrain its ability to set SC 12 delivery rates without exceeding otherwise applicable firm rates. Moreover, the SC 9 interruptible delivery rates are also set equal to their corresponding SC 12 delivery rates, so this too constrains the SC 9 delivery rates (Id.). Finally, the Company also proposed that Rate 1 customers not pay less than the MMC under any circumstances (Id.).

Staff and the Consumer Power Advocates (Dowling Direct, pp. 24-26) disagree. Staff states that the current reconciliation mechanism should continue (Staff Gas Rates, Direct, Corrected, p. 27-29). The City contends that no reconciliation mechanism is necessary given its proposed cost-based fixed Rate 1 rates (Gorman Direct, p. 24; Gorman Rebuttal, p. 4).

In response, Con Edison states that its proposal to reconcile all Rate 1 customers on delivery only is consistent with Commission policy to maximize benefits for firm customers (CE Gas Non-Firm Services, R/U, pp. 27-28). The Company also

reiterates that "under no circumstances should an interruptible customer pay less than a cost-based minimum charge i.e., the minimum contribution necessary to pay for the costs to serve them" (Id., pp. 28-29).

The Commission should continue the current reconciliation mechanism for Rate 1 customers because the intent of Con Edison's proposal could allow interruptible customers, who receive a lower quality of service, to have bills higher than firm customers. The Company's proposal would eliminate the constraint on setting interruptible delivery rates caused by assigning the highest cost gas supply to interruptible customers. Currently the total bill must be the same and if an interruptible customer's commodity is higher, it forces the interruptible delivery rate to be lower than the otherwise applicable firm delivery rate. This was not a problem in the past because oil was a viable alternative and an interruptible bill equaling a firm bill would have been an exception, but this is no longer the case and, thus, the proposal is not reasonable. The constraint relied upon by the Company is actually the primary factor limiting excessive Rate 1 delivery rates, given that the cost of alternative fuels are often no longer competitive with natural gas (CE Gas Infrastructure, Direct, p. 67 and CE Gas Infrastructure, R/U, p. 116). Thus, under Con Edison's proposal, Rate 1 delivery rates could, in theory equal firm rates, but have a higher total bill. Therefore, the Commission should reject Con Edison's proposal to reconcile SC 12 Rate 1 customers on a delivery only basis and continue the current reconciliation.

Finally, regarding the Company's proposal that Rate 1 customers not pay less than the MMC under any circumstances, since these are interruptible customers receiving a lower quality of service it is not reasonable that they be required to

pay the MMC under any circumstance. For example, if they are interrupted for all of the billing period, or most of the billing period with only small window to take gas service, then it may not be a reasonable to charge them the MMC for that billing period.

3. Non-Firm Revenue (Rate 1)

Con Edison proposed to increase the sharing of non-firm revenues above \$58 million from 75% to 80% for ratepayers with shareholders retaining the remaining 20%. The increased sharing is the only change proposed by the Company. The imputation would remain at \$53 million with the Company retaining the first \$58 million of non-firm revenues. In addition, to the extent non-firm revenues are between \$33 million and \$58 million, firm customers would still be surcharged 80% of the difference and responsible for 100% of any revenue shortfall below \$33 million (CE Gas Non-Firm Services, Direct, pp. 20-21).

While Staff agrees with the increased sharing of non-firm revenue above \$58 million, we also recommend an increase in the base revenue imputation from \$53 million to \$58 million with no recovery of any shortfall below \$58 million to more properly reflect the changes proposed by the Company's non-revenue neutral rate structure (Staff Gas Rates, Direct, Corrected, p. 31). In addition, the increasing historic trend in non-firm revenues also supports our recommendation (Id., p. 32).

Con Edison contends that non-revenue neutral changes should not constitute changing the non-firm revenue sharing mechanism because rates can vary monthly (CE Gas Non-Firm Services, R/U, pp. 45-46) and further states that significant changes to the Company's capacity release revenues make reliance on the past non-firm revenue amounts questionable (Id., p. 47).

The Commission should adopt Staff's recommendation to

increase the imputation to \$58 million along with the 80/20 ratepayer/Company sharing mechanism for non-firm revenues in excess of the imputation, with no recovery on any shortfall. The Company did not provide a Rate 1 revenue forecast due to what it claims is "considerable uncertainty" (CE Non-Firm Services, Direct, p. 21 and Exh. 793). However, it is undisputed that the Company has achieved total non-firm revenues above \$58 million for each of the last four rate years with an average of \$73 million in the last two rate years (Exh. 581, p. 46). Therefore, even acknowledging an alleged shortfall of ten million dollars in 2013, attributable to capacity release revenues (CE Peter T. Carnavos, R/U, p. 14), the Company should still expect to generate revenues in excess of the imputation being recommended by Staff and firm customers should continue to benefit from the Company's interruptible services at a commensurate level in the Rate Year until the impact of any potential changes are actually realized.

4. Off-Peak Firm Rate 2

Con Edison proposed to eliminate the contractual obligation of one, two or three years for the Rate 2 rate structure, the 0.5 and 1.0 cent per therm discount for two and three year contracts, respectively, and to increase the Rate 2 delivery rate to 11.5 cents/therm. Current Rate 2 customers would be grandfathered until the expiration of their existing contracts. The Company also proposed to maintain the current 1.0 cent/therm discount for monthly usage in excess of 500,000 therms (CE Gas Non-Firm Services, Direct, p. 16).

Staff supports Con Edison's proposal to eliminate contracts (Staff Gas Rates, Direct, Corrected, p. 34), but disagrees with its proposal to increase the Rate 2 delivery rate to 11.5 cents/therm. Instead, Staff recommends that the Commission establish a single Rate 2 delivery rate at the

current one year contract rate of 8.0 cents per therm because this rate more appropriately compares to current rates and those rates proposed to be grandfathered for up to three years (Id., p. 35). The Consumer Power Advocates (Dowling Direct, pp. 28-30) and NYECC (Bomke Direct, pp. 11-12) also reject Con Edison's proposal and recommend maintaining the current Rate 2 rate structure. The City recommends maintaining the current volumetric charge and proposes a monthly \$78 customer charge based on its estimated cost of service (Gorman Direct, p. 31).

In response, Con Edison states that the Rate 2 rates have not increased since their inception in 1993 despite increases of 41% in firm rates and that the percentage difference between Rate 2 rates and otherwise applicable firm rates is approximately 66% compared to 46% for Rate 1 delivery rates and the otherwise applicable firm delivery rates (CE Gas Non-Firm Services, R/U, p. 25).

The Commission should adopt the proposal to eliminate contracts, in order to remove the discounts associated with these contracts for the benefit of firm customers (Exh. 581, p. 25). Eliminating contracts will also simplify the rate structure (Staff Gas Rates, Direct, Corrected, p. 34-35) and is not expected to create customer volatility because off-peak firm customers will continue to receive a significantly lower delivery rate (Exh. 581, p. 32). Finally, since Rate 2 rates will continue to be set by the Commission, Rate 2 customers are assured that their rates will be just and reasonable.

While Staff agrees with the Company's proposal to eliminate contracts, we disagree with its Rate 2 rate increase. The one year contract rate is a more appropriate comparison to current rates and the rates proposed to be grandfathered for up to three years, thereby, removing any competitive disadvantages (Staff Gas Rates, Direct, Corrected, pp. 35-36). Con Edison

fails to provide any cost basis for the Company's proposed rate increase to 11.5 cents per therm. Instead, the Company claims that this rate has not been increased since 1993. Comparing percentage differences between interruptible and otherwise applicable firm rates as a basis for changing rates, particularly when considering one rate has changed consistently while the other rate has gone unchanged for 20 years, is certainly not a sufficient basis for a rate increase. The Commission should, therefore, adopt Staff's recommendation to set a single Rate 2 rate at 8.0 cents per therm based on the current one year contract rate.

5. Need for Evaluating Interruptible Service

Con Edison proposed a number of changes to its interruptible service classes (e.g., both interruptible Rate 1 and Off-peak firm Rate 2) that compels considerable focus on historic interruptible rate principles. It is the Company's position that the historic treatment of interruptible rate design should continue (CE Gas Non-Firm Services, R/U, pp. 4-14). The Company contends that interruptible customers have little to no commitment to gas service, and historically customers have often elected to interrupt use of the gas system to burn less expensive alternatives (Id., p. 18).

Staff recommends that Con Edison be required to evaluate the value of interrupting interruptible customers (Exh. 581, p. 55) and file its results with the Commission within six months from the effective date of an order in this proceeding (Staff Gas Rates, Direct, Corrected, p. 37). The City also recommends a complete, detailed cost-of-service study be completed by the Company in order to set a more accurate cost-based rate (Gorman Direct, p. 32).

Staff is seeking this investigation because of the significant changes occurring in the market. Oil and natural

gas prices have been linked historically because they were traditionally substitute/competitive fuels with oil often less expensive than natural gas. As a result, Commission policy was to give local distribution companies flexibility in order to set delivery rates to compete with alternative fuels, and on the occasion alternative fuels were not competitive, interruptible rates were flexed to maximize revenue to the benefit of firm customers and shareholders. The flexing of the delivery rate was not a detriment historically because interruptible gas customers benefitted from both inexpensive delivery rates to use a system designed and paid for by firm customers whenever gas was competitive with oil. With natural gas prices now typically less expensive, and the City's phase-out of #4 and #6 fuel oils, which will further limit the availability of alternative fuels to natural gas, Staff and several parties have raised concerns with the reasonableness of continuing the historic practice of setting interruptible rates. Therefore, Staff's recommendation to conduct a study and have Con Edison report its results should be adopted.

6. Gas Transmission Reinforcement Surcharge

Con Edison proposed a new \$0.05 per dekatherm surcharge on all volume delivered to the large electric and steam generators (Generators) on individually negotiated contracts taking service under the interruptible Rate 1 rate (CE Gas Non-Firm Services, Direct, p. 25). The surcharge would apply to the five large electric power generators and the Company's Steam Operations Department that combine for approximately half of the total annual system throughput (Id., pp. 23-24). Con Edison argues that the Generators benefit from the availability of capacity on the Company's delivery system attributable mainly to continuing investment in capital expenditure programs supported by firm customers (Id.).

Staff and the City (Gorman Direct, pp. 33-34) oppose the Gas Transmission Reinforcement Surcharge (Staff Gas Rates, Direct, Corrected, p. 39) because Generators are interruptible customers on individually negotiated contracts and if the Company believes there is a revenue shortfall, it should instead seek to modify its agreements with the Generators (Id., pp. 39-40). In addition, Staff submits that the Company's cost recovery proposal does not reflect traditional cost recovery and could result in intergenerational inequities (Id.).

The Commission should reject Con Edison's proposed Gas Transmission Reinforcement Surcharge because the Generators are served under an individually negotiated interruptible rate, and are, therefore, not firm customers. An additional surcharge for the Generators is not reasonable given that the gas system is designed to meet only the needs of firm customers (Staff Gas Rates Direct, Corrected, pp. 39-40) and Generators' contract rates should yield appropriate revenue for their use of the system.

Moreover, as indicated above, the Company stated that the proposed surcharge was designed to collect approximately \$7.5 million, or half of the projected cost, for transmission related projects annually (CE Gas Non-Firm Services, Direct, p. 26). However, the Company's cost recovery proposal does not reflect traditional cost recovery over the life of the transmission projects, and would result in accelerated recovery of transmission plant. Con Edison's historic spending does not support the forecasted level of spending the surcharge is based upon (Exh. 581, p. 2). Accordingly, Con Edison's proposed surcharge should be denied.

c. Steam

i. Emissions Allowances Recovery Mechanism

The Company's Steam Rate Panel proposed a revision to Tariff Leaf 51 which would allow for costs and revenues from the purchasing and sale of emission allowances from future anticipated federal air pollution emission allowance programs to be included in the calculation of the Average Cost of Fuel (CE Steam Rate Direct, p. 29), and thus recovered through the Fuel Adjustment Clause. The Steam Rate Panel states that since the Environmental Protection Agency is "continuing its efforts to obtain reversal of the invalidation of the Cross State Air Pollution Rule, and failing that, it intends to adopt a replacement rule", and that "adoption of a rule is certain." (CE Steam Rate R/U, p. 4). Furthermore, the Panel states that, "it is precisely because the timing and cost of a new rule are not yet known that the provision proposed by the Company is necessary to provide for proper recovery of these costs." (CE Steam Rate R/U, pp. 4-5). The revision to the tariff leaf proposed by the Company reads: "If applicable, the average cost of fuel will also include costs, as incurred, and revenues, as received, related to the purchase or sale, respectively, of emission allowances or credits pursuant to any Environmental Protection Agency, New York State Department of Environmental Conservation or other federal, state, or local agency regulatory program." (Proposed Tariff Leaf 51).

Staff recommends that the Company's proposed changes to Tariff Leaf 51 be denied because it is currently impossible to estimate the costs and revenues associated with the Cross State Air Pollution Rule (CSAPR) or even to know whether such a rule would be in effect during the Rate Year. Consequently, the language of the tariff leaf revision is too broad. The United States Supreme Court recently agreed to revisit the case which

invalidated CSAPR where "oral arguments and a decision are due in the court's next term, which starts in October and ends in June 2014." (Ex. 787, p. 1). The Company's Steam Rate Panel does not dispute that "it's conceivable that a decision may not be reached until June 2014" (Tr. p. 237) at which point either will CSAPR go into effect or the EPA must return to the rulemaking process.

It is likely that even if CSAPR goes into effect the EPA will require some time to begin to administer the program, and if the lower court's ruling is upheld, the Panel agrees that "it may well be two more years before another rule is promulgated not to mention any court challenges which may occur." (Tr. p. 238). It is, therefore, not likely that costs and revenues related to the purchase or sale of air pollution emissions allowances will even be a Rate Year issue. Regarding the Steam Rate Panel's assertion that "adoption of a rule is certain" (CE Steam Rate R/U, p. 4), the Steam Rate Panel has asserted that it has "no first-hand knowledge" (Tr. p. 235) of the EPA's efforts to replace CSAPR, therefore the Panel can neither be certain of the adoption of a new rule, nor whether any such rule would go into effect during the Rate Year. Finally, Staff believes that the wording of the revised tariff leaf is too broad, and that the revisions to the tariff leaf suggest that any future air pollution emissions allowance programs be automatically passed through the FAC without further review and investigation by Staff or approval of the Commission. Staff, therefore, recommends that the Commission reject the tariff leaf revision proposed by the Company.

ii. SC 4 Contract demand

The Company did not propose changes to the SC 4 Contract Demand Charge rate design in either its direct or rebuttal/update testimonies. The current rate design for the SC

4 Contract Demand charge was initially set by the Commission in its Opinion and Order adopting Term of Settlement in Case 99-S-1621, and was approved again without modification in the Company's last Steam rate case, Case 09-S-0794. As currently designed, the Contract Demand Charge recovers "40% of production demand costs and 100% of distribution demand costs through the on-peak contract demand component applicable to peak period customers" (CE Steam Rate R/U, p. 6), and "15% of the production demand costs and 100% of the distribution demand costs" (CE Steam Rate R/U, p. 7) through the off-peak contract demand charge applicable to off-peak period customers. Peak-period customers and off-peak period customers are defined as follows:

"A Peak Period Customer is a Customer who will require service under this Service Classification during the months of November through April, inclusive, at any time during the Peak Period. The Peak period is defined as Monday through Friday, 5:00 a.m. to 8:00 p.m., during the months of November through April, inclusive. An Off-Peak Period Customer is a Customer who will require service under this Service Classification during the months of November through April, inclusive, but will not use service at any time during the Peak Period" (Tariff Leaf 98, Revision 0).

City of New York witness Harvey Arnett asserts that the SC 4 Contract Demand Charge is improperly designed in two ways: that too many costs are recovered through the Contract Demand Charge; and that the Contract Demand Charge should not be based on usage during the winter shoulder months for the purposes of cooling. Mr. Arnett states that "the Commission should take another look at how it allocates Demand Related Distribution costs between the Contract Demand and the As Used Demand Charges" (CNY Harvey Arnett Direct, p. 29). Mr. Arnett also proposes that the rate design of the Contract Demand Charge should be based solely on steam usage for heating purposes only (CNY Harvey Arnett Direct,

p. 35). Mr. Arnett asserts that "as currently designed, the Steam Standby Rate has the unintended and perverse consequence of penalizing the use of steam for cooling purposes" (CNY Harvey Arnett Direct, p. 28). Mr. Arnett proposes "to measure the Contract Demand for Steam Standby based on the same four month, five hour period as the Demand Charges apply in Conventional Demand Rates," or that "the Commission should clarify that the SC 4 Contract Demand be based solely on steam used for heating, not cooling purposes." (CNY Harvey Arnett, Direct, p. 35).

The Company proposes to continue the current method of determining the Contract Demand Charge. Regarding the costs recovered by the Contract Demand Charge, the Company states that SC 4 rates were "designed to give recognition to the potential diversity of SC 4 loads" (CE Steam Rate R/U, p. 6), and that 100% of the demand-related distribution costs are recovered through the individual Contract Demand Charge because "the distribution system takes into consideration a customer's individual contract demand." (CE Steam Rate R/U p. 7).

Regarding Mr. Arnett's proposal that the SC 4 Contract Demand Charge should be based on the same 5-hour peak period used for SC 2 and SC 3 Demand Billing classes, the Company states that "the Demand Billing and SC4 service classification provide for materially different uses of steam service and consequently have different rate designs" (CE Charles Viemeister R/U, p. 17), and "the SC 4 contract demand charge is a reservation charge for steam system capacity while the SC 2 and SC 3 demand rates are a pricing signal to avoid the investment in costly steam system capacity." (CE Steam Rate R/U, p. 8).

The Commission should reject City witness Arnett's proposal to modify the costs recovered through the SC 4 Contract Demand Charge. While Mr. Arnett suggests that "the Commission should take another look at how it allocates Demand Related

Distribution costs between the Contract Demand and the As Used Demand Charges" (CNY Harvey Arnett Direct, p. 29), he does not propose any reasonable alternatives to the current cost recovery structure except to recommend a revisions to the period over which the contract demand is measured.

The Commission should not accept City Witness Arnett's proposal to update the Contract Demand Charge to be set on the same basis as the SC 2 and SC 3 Demand-billed Contract Demand Charge. As noted by the Company, "the SC 4 contract demand charge is a reservation charge for steam system capacity." (CE Steam Rate R/U, p. 8). Since the Contract Demand charge is a reservation of capacity on the steam system, the charge should be based the customer's usage during any period. This is not a cost based solution but merely a proposal intended to benefit one specific group of customers that utilize the steam SC 4 rates. Furthermore, the Commission has already considered and rejected a proposal to modify the period over which the contact demand is measured in Case 12-S-0147 (Case 12-S-0147, Order Denying Petition for Declaratory Ruling, September 17, 2012, pp. 6-8).

If the Commission finds the City's arguments to examine the allocation of costs to the various SC4 rate components to be persuasive, it should order the Company to perform a more comprehensive review of the cost allocations and rate design related to SC4 and to include such filing in either its next major rate filing or a separate filing within 90 days from the Commission order in this proceeding.

XII. Other Issues

a. Performance Mechanisms

i. Electric

In Opinion No. 95-7 the Commission expressed its strong preference for performance-based regulation wherever a monopoly remains (RPM Panel Direct, p. 6).²⁷ The electric service reliability performance mechanism (RPM) is in accordance with such performance-based regulation and is associated with all major electric utilities under the Public Service Commission's jurisdiction (RPM Panel Direct, p. 7). We have reviewed the current RPM for Con Edison, its proposed changes, and we made recommendations in the RPM Panel direct testimony to ensure that the RPM continues to promote reliable service for customers. We recommend the continuation of all metrics and revenue adjustments in the current RPM except for the changes discussed below related to network frequency, network duration, network summer feeder open-automatic, over-duty circuit breaker, restoration metric, and the Intrusion Detection System metric. Continuing the RPM and its associated potential revenue adjustments allows the Commission to hold the Company accountable for the service it provides to its customers.

1. Network Frequency and Duration Targets

The Company's pre-filed testimony proposes to exclude major storm outages from the network outage frequency and duration performance calculation when these outages impact network customers served by overhead facilities (IIP Direct, pp. 358-359). The Company does not propose a change to the target values. Also, Con Edison proposes to revise the major storm exclusion language to state that it "includes interruptions to

²⁷ Case 94-E-0952, In the Matter of Competitive Opportunities Regarding Electric Service, Opinion and Order Adopting Principles to Guide the Transition to Competition (issued June 7, 1995) (Opinion No. 95-7).

customers in secondary network areas who are supplied via overhead lines connected to an underground network system" (IIP Direct, p. 359). The Company states that in some portions of its distribution system, customers are supplied from overhead lines that are energized from the secondary network distribution system (overhead network customers). Like equipment on the overhead radial system, poles, overhead mains, and overhead services supplied from the secondary network system are subject to storm damage. When such storm damage causes customer outages, the outages are considered secondary network outages and affect the Company's RPM performance under the Network Outages per 1,000 Customers and the Network Average Outage Duration threshold standards. (IIP Direct, pp. 358-362)

We agree that the network indices calculation should not include major storm outages to network customers served by overhead facilities since these facilities are equally prone to damages caused by major storms as are radial facilities that are currently granted exclusions (RPM Panel Direct, p. 10). Where we disagree, however, is regarding Con Edison's proposal to change the major storm exclusion language in the RPM and that the network outage frequency and duration targets should remain the same. The major storm exclusion, shown on page 4 of Exhibit RPM-2 (Exhibit 248), does not state that it applies to only radial facilities; therefore, no change is needed (RPM Panel Direct, p. 10). The reason the major storm outage exclusions have historically been applied only to the radial system is because targets set for the radial frequency and duration standards were developed by disregarding all outages associated with major storms. Targets for the network frequency and duration standards, however, were calculated including outages caused by major storms. Therefore, to allow for the exclusion of major storm outages to overhead network customers under the

RPM for the Company, the network outage frequency and duration targets should be recalculated with the removal of major storm outages to overhead network customers. For the Network Outage per 1,000 Customers metric, Staff recommends 2.2; and for Network Outage Duration, we recommend 4.4 (Exhibit 72). These targets are based on more recent outage data, the removal of major storm outages that impacted overhead network customers, and the removal of winter snow/ice major storm outages that are also excluded from Con Edison's network performance (RPM Panel Direct, pp. 13-14).

In the Company's rebuttal testimony, Con Edison does not comment on Staff's recommendation to keep the major storm exclusion language in Con Edison's RPM as currently written. Con Edison does agree with the removal of major storm outages that impact overhead network customers and the removal of winter snow/ice major storm outages when determining the network duration and frequency target (IIP U/R, p. 74). The Company disagrees with Staff use of the average of 10 years of historical performance values plus 10% for variance to determine the Network Outage per 1,000 Customers metric and Network Outage Duration (IIP U/R, pp. 70-77). Instead, Con Edison proposes a target of 2.5 for Network Outage per 1,000 Customers metric and 5.0 for Network Outage Duration based on its most recent five year average plus 15% for variance (Exhibit 71).

Con Edison's proposed network targets should be rejected. The Company stated that its proposed target values and methodology for determining the target values are best based on the number of times it would be exposed to a revenue adjustment during its historical years and since the original metric was based on five years of data (IIP U/R, pp. 76-77). Con Edison's proposal, however, is simply a manipulation of the historical data to obtain a target that would provide it with

more leeway and minimize the Company's risk of revenue adjustment. Our targets are based on a similar methodology proposed by Con Edison in its testimony in Case 09-E-0428.

According to Con Edison,

"...the use of 10 years is a reasonable period for establishing the "service levels that the Company has been able to maintain in the past." The use of 10 percent above the average recognizes that if the performance threshold is set at the historical average, the Company is likely to fall below that performance level in half of the years during which it is subject to such a threshold." (Case 09-E-0428, IIP Direct, p. 249).

The 10 year average plus 10 percent is the calculation used to derive the radial system-wide targets that are currently in effect. Our methodology for calculating system-wide metric targets is the appropriate methodology that better takes into account variability. Staff recommended targets should therefore be adopted.

2. Network Summer Feeder Open-Automatic Target

We recommend that the Commission determine that the target for the network summer feeder open-automatic (open-auto) metric be decreased from 510 to 380, based on the incorporation of more recent outage data and a change in the calculation of the metric to bring it in line with how the other system-wide threshold standards are determined (RPM Panel Direct, p. 15). In addition, Con Edison has put in place procedures that increase the use of voltage reduction as a means to reduce the number of feeders that open-auto. Thus, it is likely that the number of feeder open-autos in the future will not exceed the highest level of open-autos experienced in the last ten years (RPM Panel Direct, p. 15). The target is based on an average of the past 10 years of historical performance data plus 10% for variance (Exhibit 72). In its rebuttal testimony, the Company

proposed a lower target level of 350, based on the same methodology used to determine the network duration and frequency targets, the average of the most recent five years of performance data plus 15% for variance (Exhibit 71).

The target we recommend should be adopted by the Commission, for the Commission to have all system-wide threshold standards determined by the same method as all standards for Con Edison. Staff methodology is in line with both Staff and Con Edison's recent proposed treatment of calculating system-wide metric targets.

3. Over-duty Circuit Breaker Metric

In 2003, over-duty circuit breakers at substations were cited as a barrier to the interconnection of Distributed Generation (DG) to Con Edison's distribution system. According to Con Edison, technologies are now commercially available to DG operators that can negate the contribution DG makes to fault currents (IIP Direct, pp. 356-357). These technologies provide an alternative solution to retrofitting breakers and no longer make replacement of over-duty breakers a barrier to the interconnection of DG to its distribution system. Con Edison further states that this dissipates the major drive for establishing the breaker replacement performance mechanism and that this metric should therefore be removed (IIP Direct, p. 357). According to Con Edison, a rigid-end-of-the-year target can negatively influence efficient planning of work (IIP Direct, p. 358). Con Edison would continue to replace over-duty breakers at the current metric requirement of 60 breakers per year or based on carefully weighing risks and benefits (IIP Direct, pp. 357-358). Con Edison did not propose to pay for the fault current mitigation technologies that would need to be used by the DG community where over-duty conditions exist.

The City's Electric Infrastructure Panel (EIP) testifies that the metric should remain due to the importance of replacing over-duty circuit breakers for reliability and safety reasons, and that over-duty breakers remain a barrier to DG interconnection (EIP Direct, pp. 20-22). In Catherine Luthin's testimony on behalf of Consumer Power Advocates, Ms. Luthin states that Con Edison's proposal to eliminate the over-duty breaker metric should be rejected for two reasons: the negative reliability impact over-duty breakers have on the system; and, that the DG community would be forced to shoulder the expense of fault current mitigation devices (Luthin Direct, pp. 50-56). David Bomke for New York Energy Consumers Council, Inc., states that Con Edison is resisting DG and he is concerned about the cost impact of fault current mitigation devices to the DG community (Bomke Direct, pp. 31-33).

For a one-year rate plan, the Commission should remove the metric from the RPM, and direct the Company to provide testimony in future rate filings on its activities since this rate case related to over-duty breakers. If the Commission determines that the Company's efforts in this area are unacceptable, then reinstating the over-duty breaker metric should be revisited (RPM Panel Direct, p. 22). If the Commission establishes a multi-year electric rate plan in this proceeding, we recommend that the over-duty breaker metric remain with the following modification: we recommend that the Commission allow Con Edison until the end of the rate plan to meet the current metric requirement. Thus, if this becomes a three year rate plan, Con Edison will have up to the end of the third year to replace 180 breakers (i.e., 60 breakers x number of years in the rate plan) or receive a maximum rate adjustment of \$9 million (i.e., \$3 million x number of years in the rate plan). The rate adjustment per breaker remains at \$100,000.

This would provide Con Edison with additional scheduling and planning flexibility that it states is not available in the current metric and supports the continual replacement of over-duty breakers (RPM Panel Direct, pp. 22-23). At the end of the rate plan, the three year breaker replacement cycle will begin again until changed by the Commission.

Another concern of Staff is the increased interconnection cost to the DG community to purchase and install fault current mitigation devices where over-duty conditions exist or will exist. A DG customer should not have to pay the additional cost for such fault current mitigation technologies simply because Con Edison chooses to operate its system with over-duty breakers. Therefore, we recommend that the Commission require the Company to pay the purchase and installation costs of the fault current mitigation equipment where an over-duty circuit breaker condition exist or will exist with the addition of the DG to Con Edison's system (SEIIP Direct, p. 97). To prevent unlimited expense exposure to the Company, we recommend an annual limit of \$3 million and that only the cost of the least expensive fault current mitigation device should be covered by Con Edison (SEIIP Direct, pp. 97-98). When this Company owned equipment requires replacement or repair and is still required due to the presence of over-duty breakers, we recommend that the Commission require Con Edison to replace the equipment or purchase repair parts at its cost, including labor costs. Equipment repair or replacement required as a result of a blown fuse, age and regular wear and tear would be covered by the Company unless it was shown that the equipment was damaged due to the DG customer's actions, omissions or its equipment. If over-duty breaker conditions no longer exist and the fault current mitigation device is no longer working, Con Edison would not be required to replace this device (SEIIP Direct, p. 98).

Con Edison accepted our recommendation related to the one year and multi-year rate plan treatment of the over-duty breaker metric (IIP U/R testimony, p. 78). The Company also accepts our recommendation concerning the purchase and installation of fault current mitigation devices (IIP U/R testimony, p. 82).

The City EIP rejects our recommendation and asserts that the original basis for implementing the over-duty circuit breaker metric still remains and therefore, the metric should not change (EIP Rebuttal Testimony, pp. 15-19). NYC's proposal should be rejected. Our recommendation that the Commission remove the metric for a one-year rate plan is not inconsistent with the underlying reason for introducing the metric. Con Edison would still be accountable for replacements of over-duty breakers through the reporting we recommend, and if the Commission finds the Company's efforts in this area are unacceptable, we recommend that it revisit the removal of the over-duty breaker from the RPM. The City's statement that a multi-year target makes it possible for Con Edison to forestall replacements for the first two years of the period is correct in theory, but is not practical. There is no prudent way for Con Edison to replace 180 breakers in one year especially with the Storm Hardening efforts, the fact that no breaker replacements are performed in the Summer, and because breaker upgrades have a lower priority level to load relief, capacity upgrades, and other Summer preparation work that might not be able to be done along with breaker upgrades. In addition, under the RPM, if Con Edison decides to wait for the third year to replace 180 breakers and for some reason does not complete all upgrades in the third year, there will be a revenue adjustment. There is also the potential that reliability under the system-wide threshold standards will be impacted, which could trigger a

revenue adjustment. Finally, breaker replacements require feeder outages and if too many feeder outages occur at one time in an area, cascading feeder outages could occur. This can cause a major outage and result in a revenue adjustment under the Major Outage metric (Exhibit 248).

The City rejects a portion of our recommendations for over-duty breakers without considering their impact as a whole. The additional flexibility provided to Con Edison to replace the breakers will allow for faster implementation of certain Storm Hardening upgrades. Requiring Con Edison to pay for fault current mitigation devices allows for DG customers to be interconnected to Con Edison's system at a lower cost and/or in a faster timeframe compared to the current situation where DG customers either pay for the fault current mitigation device themselves or wait for the replacement of all over-duty breakers in the substation. The City's point that it would take 15 instead of 20 years to replace the over-duty breakers is irrelevant because it would still take many years for all the original over-duty breakers to be replaced. Also, this timeframe does not take into account breakers that could become and have become over-duty since 2003. We also note that the City EIP incorrectly states on page 17 of its rebuttal testimony that we suggested that the over-duty breakers replacement will take 20 years. This statement was made by Con Edison in its direct testimony on page 357 and we only reference this statement in our testimony as information from Con Edison (RPM Panel Direct, p. 17). The current over-duty circuit breaker metric is not sufficient by itself to meet both reliability and DG customer needs and, therefore, the Commission should adopt our recommendations.

4. Restoration Mechanism

In Case 07-E-0523, Staff recommended and the Commission directed in its 2008 Rate Order the addition of the Restoration mechanism to the RPM on a trial basis. This trial basis would continue until further data was derived to determine the metric's usefulness and applicability to the Company's restoration efforts. This mechanism was designed to encourage the Company to meet restoration times based on the type of overhead emergency event.

We recommend that the Commission remove this mechanism from the RPM for the Company. In Case 13-E-0140, the Commission obtained comments from interested parties regarding a utility scorecard that will be used to quantitatively assess an electric utility's performance in restoring electric power after a significant outage.²⁸ The scorecard will make the restoration mechanism in the current RPM duplicative and unnecessary (RPM Panel Direct, p. 27). No party has indicated any objection to our recommendation that this mechanism should not be included in the RPM established in this proceeding by the Commission.

5. RPM - Major Storms/Resiliency

In the testimony of Nancy Brockway, she states that the RPM does not provide incentives to minimize certain intentional and unintended outages (Brockway Direct, p. 37). She recommends that when trees, limbs, and poles fall, taking out lines in a storm, there needs to be after-incident reviews to examine the conditions prior to the failure, and to examine whether timely trimming of trees, replacement or relocation of poles and lines would have avoided an outage (Brockway Direct, p. 39). Furthermore, PULP states that the Commission should explore adoption of the emerging standards of IEEE for major

²⁸ Case 13-E-0140, Proceeding on Motion of the Commission to Consider Utility Emergency Performance Metrics.

event days so that significant service outages result in consequences that stimulate the Company to perform better. She also believes that the Commission should establish specific standards for maintenance activities, rather than rely on a performance-based standard that, according to her, does not measure critical factors and has not incented better performance (Brockway Direct, p. 39). The City's EIP also claims that the current performance metrics are not sufficient (EIP Direct, p. 45). The Panel recommends a resiliency SAIFI (System Average Interruption Frequency Index) and CAIDI (Customer Average Interruption Duration Index) performance metric to reflect the ability of the electric system to withstand, or recover from, major storms. However, the City did not recommend the implementation of any metric during this rate case, nor did it provide any specific targets and revenue adjustment amounts (EIP Direct, pp. 44-49).

With regard to Ms. Brockway's and the City's proposals to have a performance mechanism associated with major storms, Staff disagrees that this should be addressed in this electric rate case. Instead, Staff suggests that these concerns would more properly be raised in Case 13-E-0140 where the Commission is currently soliciting comments regarding a Scorecard that will be used to assess an electric utility's performance in restoring power after a significant outage.²⁹ In fact, NYC provided comments regarding the Scorecard on June 10, 2013.

Concerning Ms. Brockway recommendation for an after-incident review, this is something that is already required pursuant to 16 NYCRR §105(c). According to 16 NYCRR §105(c), when restoration of electric service after an emergency event exceeds three days, the regulation requires review of the

²⁹ Case 13-E-0140, supra., Notice Soliciting Comments (issued April 24, 2013).

utility's preparation and system restoration performance. In addition, separate from analyzing a utility's performance under its RPM, the utility's performance throughout the year is reviewed as required under 16 NYCRR §97 and Staff submits a report on our findings to the Commission annually.³⁰

Furthermore, where the Commission has found that a utility's maintenance activities are insufficient, specific standards have been put into place for that utility.

6. Security - Bulk Power System Substations

To date, Con Edison's Security Enhancement Program has completed Intrusion Detection Surveillance (IDS) installation at four Bulk Power System (BPS) substations during the previous three years. The Company refers to challenging dilemmas that curtailed IDS installation that are noted in the Company's Rebuttal testimony (Infrastructure and Operations Panel U/R, p. 87). Staff maintains the position that Con Edison is not the only utility that has encountered these challenges. During the previous three years, two electric utility companies whose territory encompasses the Western, South Western, Central, and Eastern territories of New York State encountered similar challenges/dilemmas relating to IDS installation at their respective BPS substations. To date, an operational IDS system has been installed at fourteen and eighteen BPS substations located within the previously mentioned territories. According to the Company, it hopes to complete the IDS installation at twelve BPS Substations by December 31, 2014 (Infrastructure and Operations Panel U/R, p. 89).

Staff maintains the position that the Company's approach to complete the IDS installation by the target completion date is reactive rather than proactive. The Company

³⁰ Case 13-E-0148, 2012 Electric Reliability Performance Report, submitted June 17, 2013.

makes reference to a sabotage incident at the Metcalf Bulk Power Substation in April 2013 (Infrastructure and Operations Panel U/R, p. 90), [REDACTED]

[REDACTED]

[REDACTED] (Murray Unredacted Direct, pp. 6-7).

Furthermore, Con Edison states that while it understands Staff's concern that this work be completed as soon as possible, Con Edison also states that it is possible some of the work to install IDS systems may "carryover" to 2015 (Infrastructure and Operations Panel U/R, pp. 90-91).

Con Edison's failure to install an operational perimeter IDS system at each of their BPS substations leaves these critical sites vulnerable to intruders not being detected prior to gaining access to the sites. We recommend that the Commission make the following adjustments to the Company's capital budget: [REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].
Currently, there are no rate making consequences to the Company for failing to complete the IDS Project. It is clear, based on the Company's failure to install IDS at the BPS substations in a timely manner, the electric system's security and reliability remain at risk and action needs to be taken by the Commission to address this. To ensure that the Company fully completes the IDS Project by December 31, 2014, [REDACTED]

[REDACTED]
[REDACTED] (Murray Unredacted Direct, pp 10-11). As discussed by the Staff RPM Panel in its testimony, the RPM is essential to help align shareholder and ratepayer interest by providing financial consequences to shareholders for the service quality of provided by the Company to its customers (RPM Panel Direct, pp. 6-7).

In order to incent the Company to complete all IDS systems at its bulk substations, Staff recommends that a reliability performance mechanism (Exh. 251) in the form of a negative revenue adjustment of \$2 million be for each BPS substation that is not equipped with a fully operational Intrusion Detection Surveillance system on or before December 31, 2014. In addition, Staff recommends that any additional funding sought by the Company to install security enhancements at non-BPS substations (Tier 2) in 2016 and 2017 should not be addressed by the Commission at this time. The Company should present the program again in its next electric rate filing.

ii. Gas

As with all major New York gas utilities, Con Edison is subject to a program of performance incentives designed to

ensure that the Company meets, at a minimum, certain threshold levels of safe operation. The targets for these performance measures are often determined by looking at the Company's historical performance and they are designed to address areas of significant importance to help ensure public safety (Staff Gas Safety, Direct, p. 6). To the extent Staff believes measures are inadequate to ensure public safety, we use other measures to determine targets, such as expert knowledge of the Company and its pipeline system, as well as experience with other similarly-situated New York gas utilities (Id.). Upon review, as is traditionally done during a rate case, recommended targets are adjusted as necessary to maximize public safety and minimize the potential for any decrease in actual achieved performance.

Currently, Con Edison has safety performance targets in the areas of Infrastructure Enhancement, Leak Management, Damage Prevention and Emergency Response. Con Edison's filed case proposed no changes to its existing targets (CE Gas Infrastructure, Direct, pp. 166-167). Staff recommends updating Con Edison's current targets to more closely match the Company's actual performance, recognizing that the Company has demonstrated an ability to meet our revised targets. In rebuttal, the Company took issue with all of Staff's recommendations arguing that Staff created a disincentive for the Company to perform better than the established targets because such performance could be used to further tighten targets in each new rate case, and that continually increasing performance targets could inevitably reach levels that cannot be achieved at current costs resulting in rate increases (CE Gas Infrastructure, R/U, p. 53).

Staff has a fundamental concern with Con Edison's position that it should not strive to improve its safety performance simply because the Commission might try to hold it

to its accepted levels, particularly when Staff's goal is to maximize public safety without being punitive by recognizing demonstrated achievable results. The Company's position is troubling in that it appears to indicate that Con Edison might sacrifice potential improvements in safety performance, thus, increasing public risk, simply to maintain a current target. Moreover, Con Edison's position that expected increases to performance targets could result in increased costs does not prevent imposing more stringent targets. In this case, however, beyond the assertion that such increase "will inevitably reach levels that cannot be achieved at current costs," the Company has not demonstrated there are any cost increases to achieve Staff's recommended targets (Id.).

Finally, Staff recommends that all targets continue on an annual basis until changed by the Commission, surviving any stay-out by the Company beyond the Rate Year. Con Edison did not address this recommendation in its rebuttal and should be adopted.

1. Infrastructure Enhancement

Staff recommends that Con Edison replace a minimum of 60 miles of leak prone pipe per year while continuing to use its risk model (Staff Gas Safety, Direct, p. 11). This is only an increase of 10 miles from the three year average combined target of 150 miles over calendar years 2011-2013. Additionally, Staff recommends that the same associated negative revenue adjustment established in Case 09-G-0795 be applied to any Company noncompliance. This mechanism would create a deferral to the benefit of customers in the total amount of eight pre-tax basis points should Con Edison fail to remove the targeted level of leak-prone pipe (Id., p.13) providing additional assurance to the Commission and to ratepayers that the Company will make every reasonable effort to meet the targeted level of performance.

In rebutting Staff's recommendation, Con Edison relied on a four year old consultant's evaluation that found that an average of 50 miles of main replacement annually would be optimal for achieving the most cost effective leak repair reduction. The Company noted that the consultant's recommendation would enable repairs to be reduced by 50% after 25 years and that the incremental benefit of accelerating the replacement beyond 50 miles annually would not justify the repair rate reduction. The consultant's findings, however, focused on cost effectiveness and did not address public safety and are therefore incomplete, at best. Finally, as to the Company's claim that Staff's accelerated program would result in expenditures significantly above what the Company proposed (CE Gas Infrastructure, R/U, pp. 66-67), Staff's Gas Infrastructure Investment Panel considered the additional cost and reflected the impact in its testimony (Staff Gas Infrastructure, Direct, Corrected, p. 35).

As noted by Staff, data collected by the United States Department of Transportation's Pipelines and Hazardous Materials Administration (PHMSA), Office of Pipeline Safety, as well as by Staff, shows that corrosion is a leading cause of gas leakage and that bare steel pipe is most susceptible to corrosion and leaks on underground piping which create safety risks to the public and can potentially lead to incidents (Staff Gas Safety, Direct, p. 9). Staff reasonably expects that removing leak-prone pipe will drive down active leaks, lead to a decline in leakage rates on the distribution system and reduce overtime and operating and maintenance (O&M) costs (Id., pp. 9-10). In addition, due to recent incidents resulting in significant property damage, injuries and fatalities, PHMSA created Docket No. PHMSA-2012-0039 and released Advisory Bulletin ADB 12-05, urging natural gas operators to conduct a comprehensive review

of leak-prone pipe, and to accelerate its removal and replacement (Id.). Based on Staff's experience with Con Edison, as well as other utilities where there are increased levels of leak-prone pipe replacement, an increase of ten miles in a single calendar year is reasonable, and Con Edison is capable of performing this level of replacement (Id., p. 12).

Lastly, Staff does not support Con Edison's proposal to allow it to count leak-prone pipe removed as a result of oil-to-gas conversions toward the Company's removal target. The Company requested specific rate recovery for its oil-to-gas conversion program costs. When Staff reviewed the Company's gas infrastructure plans, it allocated one amount for oil-to-gas conversions and another for the costs expected to be incurred to meet the existing 50 mile leak-prone pipe removal target (Staff Gas Safety, Direct, pp. 14-15). To the extent that any leak-prone pipe is removed under the Company's oil-to-gas conversion efforts, if such were allowed to count towards the leak-prone pipe replacement performance measure target, customers would be paying twice for the same pipe removal.

2. Leak Management

Because the Company has substantially reduced the level of potentially hazardous leaks in its year-end backlog, Staff recommends eliminating the target for potentially hazardous leaks (Staff Gas Safety, Direct, p. 19). Staff also recommends, however, a single total leak backlog target of 900 leaks, which reduces the Company's current target of 1350 total leaks for calendar year 2012 (Id.).

In assessing a proper level for Staff's recommended total leak backlog target, we took into consideration our experience with Con Edison including the Company's risk-based pipe priority methodology that allows Con Edison to replace its most leak-prone pipe first. By using its prioritization model,

Con Edison will reduce both the active leaks on its system and the prospect of future leaks that could add to its backlog (Staff Gas Safety, Direct, p. 20). According to Con Edison's December 31, 2012 backlog report, the Company had only 997 total leaks, nearly at Staff's recommended target (Id., p. 18). As to the Company's claim that Staff's total leak backlog target is "overly aggressive and unreasonably burdensome" and that a single year's performance of less than 1,000 leaks in backlog should not be used to set the target (CE Gas Infrastructure, R/U, pp. 54-55), Staff notes that Con Edison historically repairs approximately 7,000 leaks per year. Assuming the Company does not experience an unprecedented discovery of leaks during the Rate Year, Staff's recommendation reflects an increased effort of only 0.7% per year above the Company's current activity. Moreover, Staff's 0.7% increased calculation does not account for the approximately 120 miles of leak prone pipe that will be removed from service during the time covering the December 2012 backlog report and December 2014 when the Company's backlog inventory would be measured against Staff's recommended target.

3. Damage Prevention

The Damage Prevention target is designed to minimize excavation damage incidents to the Company's pipeline infrastructure. Con Edison's current total damage target is 2.00 maximum total damage incidents per 1000 tickets, its Company-controlled mismark target is 0.50 damage incidents due to mismarks per 1000 tickets, and its Company-controlled target is 0.25 damage incidents due to Company personnel and Company-retained Contractors per 1000 tickets. Staff recommends a total damage target of 1.50 damage incidents per 1000 tickets for Con Edison during 2014 (Staff Gas Safety, Direct, p. 27). Con

Edison's performance in 2012 was 0.96 total damages per 1000 tickets (Exh. 841). Not only has the Company clearly demonstrated that it is able to achieve Staff's recommended target, should the Company not achieve the target performance, such performance would actually represent a significant deterioration in the Company's past performance.

Similarly, Staff recommends Con Edison's damage incidents due to mismarks be targeted at 0.30 incidents per 1,000 tickets for calendar year 2014 (Staff Gas Safety, Direct, p. 27). Con Edison's performance through 2012 was 0.16 damages due to mismarks per 1000 tickets (Exh. 841). As with Staff's total damages target, if the Company performance surpassed Staff recommendation it would represent a significant deterioration in the Company's past performance.

In contrast to the foregoing, while Staff recommends Con Edison's target for damage incidents due to Company personnel and Company-retained contractors be set at 0.11 for calendar year 2014 (Staff Gas Safety, Direct, p. 27), Con Edison's performance through 2012 was, in fact, 0.20 damage incidents (Exh. 841). Staff is alarmed by the Company's poor performance with its own employees and contractors when measured against a statewide average for 2012 of 0.11 damage incidents per 1000 tickets for the same metric. Given that this metric is the one most within the Company's control to avoid, Staff's recommendation is reasonable despite the Company's past performance.

The Company should be able to institute controls and adopt best practices to bring its performance to an acceptable level. Con Edison has been identified in the recent Annual Gas Safety Performance Measures reports and subsequent cover letters as having substandard performance in the area of damages due to Company and Company Contractors (Exhs. 840 and 841). Con Edison

has been identified for at least five years with needing to substantially improve its performance, yet as noted in the last report (Exh. 841), the Company still has not adequately performed. Thus, any claim that Staff's target is overly aggressive should be viewed in the context that the Company has been aware of its substandard performance and has still not improved.

Staff recommends the same associated negative revenue adjustment established in Case 09-G-0795 be utilized in this case. A total of ten pre-tax basis points would be deferred for the benefit of ratepayers if Con Edison fails to achieve the recommended damage prevention targets assessed as follows: overall damages should have two pre-tax basis points at risk, damages due to mismarks should have four pre-tax basis points at risk, and damages due to Company and Company contractor personnel performance should have four pre-tax basis points at risk (Staff Gas Safety, Direct, p. 32).

As for Con Edison's other assertions against Staff's recommendations (CE Gas Infrastructure, R/U, pp. 57-60), Staff notes that it employed the same method here that it uses in other rate cases. In considering what recommendations to include, Staff considers the Company's historical performance, the statewide performance level and its knowledge and experience with the operations of the particular company at issue, as well as those of the other gas utility operations throughout the state. Where a company is performing worse than the statewide level, such performance is considered unacceptable and a recommendation is made to try and bring the company into compliance with the current statewide level. This approach is reasonable because any improvements achieved, increases the public safety and minimizes the risk of injury to Company employees, excavators and the general public.

4. Emergency Response

The target for Emergency Response establishes targets that measure the time in which it takes the Company to respond to calls reporting gas leaks, odors or other emergencies. Initially, Staff notes that the Company did not oppose our recommended continuation of two existing emergency response performance targets established by the Commission in Case 09-G-0975. These unopposed targets consist of responding within 30 minutes to 75% of all emergency related calls and within 45 minutes to 90% of such calls. Staff also recommended that the negative revenue adjustments associated with failure to meet those targets likewise continue (Staff Gas Safety, D, pp. 34-35).

Staff further recommends a new target of responding to a minimum of 95% of emergency calls within 60 minutes (Staff Gas Safety, Direct, p. 35), with an associated negative revenue adjustment of two pre-tax basis points should the Company fail to meet such target (Id., p. 36). Con Edison's argued that the addition of a performance measure and negative revenue adjustment for the 60-minute response time exposes the Company to undue financial risk with no benefit to customers and may have the potential to increase costs (CE Gas Infrastructure, R/U, pp. 60-61). Staff disagrees because the target provides an incentive for the Company to continue to make its best efforts to respond to emergency calls in a timely fashion even where the Company's response time has exceeded 45 minutes. Moreover, most companies that have emergency response targets in their rate plans include this 60 minute target, including Con Edison owned Orange and Rockland Utilities, Inc., as well as the similarly-situated New York City based Brooklyn Union Gas Company d/b/a National Grid New York (Staff Gas Safety, Direct, pp. 35-36).

Additionally, Staff notes that Con Edison has demonstrated its ability to meet the target (Exh. 841). Therefore, it should be adopted by the Commission.

5. Violations of Pipeline Safety Requirements

Staff regularly monitors utility compliance with the Commission's gas pipeline safety regulations as contained in 16 NYCRR Parts 255 and 261. As part of its monitoring, Staff conducts record and field audits, reporting on an annual basis utility compliance with the Commission's regulations (Staff Gas Safety, Direct, p. 37). Over the years, Staff has become very concerned with the noncompliance rate for all the gas utilities across the state, and even more concerned with a culture that appears to accept noncompliance as business as usual, particularly in the absence of any clear mechanism to address such noncompliance (Id., p. 38).

In particular, Staff's experience with Con Edison is that the Company lacks sufficient control and quality assurance to ensure compliance (Id.). Staff has experienced difficulty in conveying the importance of strict compliance with the Commission's rules and regulations, lacking an appropriate enforcement mechanism to deliver the message that the rules are meant to be followed, and not simply intended as guidelines (Id., pp. 40-44). Indeed, any noncompliance with the Commission's pipeline safety regulations is a serious issue that could either directly or indirectly lead to an incident causing serious public harm (Id.). Accordingly, Staff recommends the implementation of a new performance measure for Gas Safety Violations.

This new performance measure would seek to reduce the instances of noncompliance with the Commission's gas pipeline safety regulations by being narrowly tailored to specific code

sections contained in the Commission's regulations that require some form of utility compliance (Staff Gas Safety, Direct, p. 39). It is Staff's immediate hope that the institution of the new Gas Safety Violations metric will instill a sense of consequence for noncompliance. In addition, Staff is seeking to minimize any chance of a severe incident like the September 9, 2010 explosion of a 30" pipeline in San Bruno, California, the cause of which the National Transportation Safety Board attributed, at least in part, to the California Public Utility Commission's lack of authority to assess fines and penalties to correct noncompliance situations (Id., p. 41). In any event, Staff believes that it makes sense that the Commission has some clearly identified path to enforcement of its rules and regulations (Id.). Staff has, therefore, successfully sought in recent rate cases to bring this new Gas Safety Violations metric to other gas utilities (Id., p. 45).

As constructed, violations of "high risk" and "other risk" regulations as listed in Exh. 579 would be tracked (Staff Gas Safety, Direct, p. 39). Staff's recommended metric would impose a negative revenue adjustment of one pre-tax basis point for noncompliance with the regulations deemed to create a very high risk to public safety (Id., p. 42) and of 1/3 pre-tax basis points for violations of regulations that require some form of compliance, but would pose some degree of less immediate harm to public safety, but for which continued noncompliance could lead to a high risk situation or otherwise contribute to the existence of a culture that accepts noncompliance as "business as usual" (Id., pp. 44-45).

Con Edison argues that without any incentive the Company has already initiated new programs and nurtured other programs to improve its own compliance with pipeline safety requirements, creating a quality culture that has already

achieved a high level of compliance (CE Gas Infrastructure, R/U, pp. 61-62). With the establishment of these new incentives, the Company claims it could incur significant financial penalties without the opportunity to refute an alleged violation in a formal proceeding. The Company also argues that each alleged violation should be assessed a penalty based on the nature and circumstances associated with such. Con Edison believes the associated negative revenue adjustments would be unfair for a utility with such a large and diverse territory and population density, with one of the most mature and costliest to repair infrastructures. In addition, the Company claims that it has never failed to correct any instance of noncompliance. Finally, the Company also states that although similar metrics have been implemented by the Commission for other utilities, the terms and conditions proposed by Staff for Con Edison are not comparable (Id., pp. 63-66).

As noted, the Company misconstrues the intent of this performance measure, which is not only to reduce the instances of noncompliance with the Commission's gas pipeline safety regulations and prevent a culture of noncompliance from occurring, but to also provide the Commission with a clear delineated path to enforcement of its own rules and regulations by creating a financial disincentive for such noncompliance. Staff believes that it is critical for the Commission to be able to proactively address issues related to noncompliance without having to experience a catastrophic event in which a death or injury occurs (Staff Gas Safety, Direct, p. 41). Having a measure applied against all situations of noncompliance reinforces a culture of concern that can only benefit the Company and its customers by avoiding noncompliance (Id., p. 43).

Additionally, Con Edison's argument that it should have the opportunity to refute a Staff finding is misplaced. First, Staff's audit involves an opportunity to have a compliance meeting with Con Edison after its findings are compiled, and the Company is provided a window of no less than five days to demonstrate, using official records identified in its O&M manual, it was in compliance. Second, in order for a rate impact to occur, the Commission must confirm the violation, and Con Edison has the right under the Public Service Law to refute any findings.

Finally, Con Edison's argument about its large territory and population density only strengthens Staff's position for the need of this important safety measure because a violation could lead to a much larger impact to public safety. The premise of this measure is simple, the Commission sets rates and provides for a reasonable return on investment for a level of safe and adequate service, and Con Edison's compliance with the pipeline safety regulations constitutes safe and adequate service. Therefore, if Con Edison cannot comply with the pipeline safety regulations with the revenue it collects, then it should be subjected to a reduced return on investment.

iii. Steam

Staff proposes a continuation of the performance metrics in the areas of leak management and emergency response that were adopted in Case 09-S-0794. These are: Emergency Response to Steam Leak/Vapor Calls and Leak management (Staff Steam Safety Direct, p. 9). Staff proposes to clarify and modify these metrics in order to simplify the leak backlog target, and remove the negotiated phase-in targets for the emergency response targets. Con Edison agrees with Staff's proposed leak backlog target (CE Steam Infrastructure and Operations R/U, pp. 31-32). Our proposal would eliminate the

June target and use instead a year-end backlog target of not more than 22 leaks, calculated by the average of the month-end backlog of the previous 12 months during the calendar year, with a negative revenue adjustment of 3.0 pre-tax basis points deferred for the benefit of customers (Staff Steam Safety Direct, pp. 12-13). The Company also agrees with Staff's proposal to clarify that the arrival response time utilized for the Steam Leak/Vapor Call 45 and 60 minute response measures is for that of a Qualified Responder (CE Steam Infrastructure and Operations R/U, p. 31).

The Company, however, disagrees with Staff's proposed refinement of the rate adjustment for the emergency response targets which the Company argues is needlessly raising the standard (CE Steam Infrastructure and Operations R/U, pp. 32-35). Staff proposes to refine the metric to consist simply of a 3.0 basis point adjustment if the Company does not meet the response targets of 90% of calls in 45 minutes and 95% of calls in 60 minutes (Staff Steam Safety Panel, Direct, pp. 10-11). This proposal would eliminate the less stringent negative revenue adjustments of 1.5 basis points and 3.0 basis points associated with the Company's response time targets. In view of the important public safety considerations associated with rapid steam leak call response time, Staff urges the Commission to adopt its proposal.

iv. Customer Operations

The current customer service performance mechanism (CSPM) for Con Edison's electric business holds a maximum revenue adjustment in favor of customers of up to \$40 million annually at risk if the Company does not meet certain customer service targets. The electric CSPM measures the following areas: Commission complaint rate; survey measures of customer satisfaction; percent of telephone calls answered within 30

seconds; and, the Outage Notification Incentive Mechanism, a measurement of the Company's performance in customer notification of service outages (Staff CPP Direct, p. 26). The gas CSPM is based on an average of biannual surveys of customer satisfaction with the handling of emergency calls relating to gas service (Staff CPP Direct, p. 32). If, during any rate year satisfaction falls below the 88.1% target, the Company incurs an adjustment to revenues ranging up to \$3.3 million, equivalent to approximately 12 basis points, after taxes, of gas common equity (Staff CPP Direct, p. 32).

No party proposed to eliminate or modify the terms of the current gas CSPM. With respect to the electric CSPM, we recommend adjustments to the targets for PSC Complaint Rate and call answer rate (Exh. 173). UIU proposed to modify the target for Call Answer Rate (Exh. 329).

Staff recommends that the Call Answer Rate target range be raised by the Commission to 63.0%-60.0%, the same levels set for New York State Electric and Gas Corporation and the lowest call answer rate targets of any other utility in New York, except the KeySpan Companies. UIU proposed raising the call answer rate target range to 70.0%-68.5% (Exh. 329).

In rebuttal, the COP states that neither Staff nor UIU demonstrated that the current metrics do not provide customers with safe and adequate service (CE COP Rebuttal, p. 36). As a threshold matter, under cross by Staff Counsel, the Company COP admitted "there is no incentive at this point to improve [call answer rate]." (Tr. 1939).

According to Con Edison, its estimate of additional staffing needs (27 representatives, at a cost of approximately 1.3 million) required to meet Staff's proposed 63.0%-60.0% targets, is based on the historic average number of calls taken per representative (CE COP Rebuttal, p. 44; Tr. 1941).

The COP also states that the call center improvements requested by the Company and supported by Staff will furnish a number of service enhancements, including requiring customers to identify themselves prior to speaking with the customer service representative, and allowing the representative to "see what the customer tried to do within the self-service [options] and be able to help them more efficiently." (Tr. 1942). Such efficiencies should save time, increase the number of calls each representative can handle, and thereby increase the call answer rate, without any additions to the work force.

The COP further admits that, even before such improvements, if Con Edison's measurement of call answer rate were to exclude the month of July, in which the Company underwent a work stoppage, its call answer rate for 2012 would already exceed the 60% lower target we recommend (Tr. 1947). Furthermore, if the measure of call answer rate excluded the summer months of June, July and August, the Company's 2012 call answer rate would exceed the 63% upper target we recommend (Tr. 1947-1948). These facts demonstrate that the call answer rate targets we propose are reasonable and achievable in the normal course of business, and do not require the Company to hire additional, full-time year-round representatives as the Company's COP claims.

In fact, the data for 2012 (Exh. 305) shows that, in November 2012, the month in which the Company received the most calls for the year, it also posted among its highest call answer rates (77.6%). This shows that Con Edison can achieve higher call answer rates by appropriately allocating and deploying its existing work force; and such capabilities will further be enhanced by the proposed call center improvements. Therefore, Staff recommends that the Commission apply the new call answer rate targets of 63.0% to 60.0%, so customers served by Con

Edison receive a level of service comparable to that which customers in the rest of the state already receive.³¹

We also recommend that the PSC Complaint Rate targets be tightened from the current target range, which is 2.5-2.9 complaint per 100,000 customers to 2.3-2.9. As we stated in testimony, the Company's PSC Complaint Rates for the most recent five rate years were reviewed, and the mean and standard deviation were calculated. Staff recommended that rate adjustments commence when complaints reached levels representing two standard deviations above the mean, or 2.3 complaints per 100,000 customers (Staff CPP Direct, p. 28). This target level will ensure that negative revenue adjustments are assessed only if there is a clear deterioration in service. Payments would commence when the rate of complaints rises above 2.3 per 100,000 customers, and escalate at levels above 2.6 and 2.9, respectively (Exh. 173).

UIU proposed tightening the PSC Complaint Rate targets to 1.8-2.2 because it believes that utilities need an appropriate incentive to maintain service performance (Collar Direct, p. 7). On rebuttal, the Company claimed that neither Staff nor UIU demonstrated that it is necessary to make the current performance measures stricter in order to provide customers with safe and adequate service (Company COP Rebuttal, p. 36).

The record conclusively shows that Con Edison will be able to achieve our proposed PSC Complaint rate. In fact, under cross by Staff Counsel, the Company admitted that if the targets we proposed were in effect for the last five years, the Company would not have exceeded the proposed threshold (or incurred a

³¹ Although Staff agrees with UIU that Con Edison's call answer rate must improve, we believe that the targets proposed by UIU are overly aggressive at this point in time.

negative revenue adjustment) in any year (Tr. 1949). There can be no more conclusive showing that Staff's proposed PSC Complaint Rate targets are fair and attainable. We recommend that the Commission apply the new PSC Complaint Rate target of 2.3-2.9 and reject the targets proposed by UIU which are overly aggressive.

b. Electric Only Issues

i. Distributed Generation

While Staff is not addressing "Distributed Generation" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

ii. Line Losses

While Staff is not addressing "Line Losses" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

iii. Aggregated Building Data

While Staff is not addressing "Line Losses" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

c. Gas Only Issues

i. Transco

In rebuttal, Con Edison proposed, for the first time, that Transcontinental Gas Pipeline (Transco) construct, own and operate certain natural gas heaters and supplemental gas odorization equipment (CE Gas Pipeline Facilities, R/U, pp. 1-3). In total, Con Edison's share of the capital cost for these projects would be \$37.7 million with an estimated ongoing O&M contribution of \$0.2 million per year (Id., p. 12).

Con Edison further proposed that it be allowed to recover the heating and odorization costs from SCs 1, 2, 3 and 13 through the Average Cost of Gas in the Gas Cost Factor (GCF) and from firm transportation customers by releasing capacity to their energy services companies at the Weighted Average Cost of Capacity (WACOC), which would reflect these new surcharges (Id., p. 18-19). While the Company believes no prior Commission approval of recovery of this type is necessary, out of an abundance of caution it is requesting confirmation that its current tariff provisions encompass a category of costs that clearly include new pipeline charges and surcharges. However, if additional clarity in the tariff is necessary, the Company proposed certain amendments (Id., p. 19) to reflect these surcharges. The Company would then compensate Transco for its share of the capital investment and O&M expense via a surcharge to its firm transportation contract with Transco. Transco, however, would first need to seek authorization from the Federal Energy Regulatory Commission to charge Con Edison the monthly surcharge through their firm transportation contract. Notwithstanding the foregoing, the Company also acknowledges that these costs could be recovered through base delivery rates (Id., p. 21).

Staff finds that cost recovery through base rates or the GCF and WACOC is premature because the Company and Transco have yet to finalize a contract for the project, so the actual construction costs as well as other details are unknown at this time. During the cross examination, the Company acknowledged that it failed to provide the actual back-up work papers behind the total proposed costs of \$37.7 million (Tr., pp. 1085-1087). The Company only provided Staff with an aggregated cost for both the heaters and odorization projects (Exhs. 843 and 844). Regarding the odorization project, the Company stated that these

aggregated costs were provided by Transco and were just estimates (Tr., pp. 1087-1089) and the Company further admitted that Transco had not yet engineered the odorization system and these estimates were, therefore, not final (Id.). When questioned about the plan and the time-line to get these numbers in order to evaluate their validity, the Company failed to provide a clear explanation (Id.).

Therefore, once the contract between the Company and Transco is complete and payments from Con Edison to Transco can be verified, the Company should file appropriate tariff amendments to reflect recovery of these costs before any costs are passed through to customers. Until Staff has had an opportunity to review these specific items, the Company should not be allowed to recover any costs.

ii. Lost and Unaccounted For Gas

Staff agrees with the Company's proposed level of lost and unaccounted (LAUF) for gas factor attributable to the gas transmission system for the Rate Year, provided that the specific recommendations regarding the Generators and the New York Facilities System are also adopted (Staff Gas Policy, Direct, p. 24-25).

In rebuttal, the Company agrees to perform a study of its gas transmission system to re-evaluate the 0.3% contribution to be made by the Generators during the Rate Year to determine if this is an appropriate contribution going forward. The Company also supports Staff's proposal to form a collaborative with the New York Facilities companies to address their LAUF issues (CE Peter T. Carnavos, R/U, pp. 15-16). Therefore, Staff has no objection to the Company's LAUF gas factor.

iii. Gas Balancing

The Company did not propose any changes to its gas balancing provisions. However, Staff is seeking to tighten the

Company's dead-band tolerances for its balancing services, as well as where cash-outs should be referenced. Balancing is used to assist transportation customers manage their fluctuations in scheduled deliveries versus projected usage. When a customer is long, or short, on deliveries the Company uses capacity assets to make up the difference and balanced customers are subject to surcharges. Specifically, Staff recommends that the Company decrease its dead-band for daily-balanced customers from 10% to 5%, and that the Company rework the cash-out tiers so that the dead-band for generators ends at 2% with variables up to 10%. These changes would benefit firm customers (Staff Gas Policy, Direct, pp. 14-16).

In rebuttal, the Company proposed that issues of balancing be pursued in the Marketer Collaborative. However, if a decision on balancing is made in this proceeding, the Company's only objection to Staff's recommendations is with the Transco Z6 reference price for cash-outs. Instead, the Company proposed that surplus imbalances be cashed out at the reported low price index for Transco Z6, while deficiency imbalances should use the reported high price index for Transco Z6, because differentiating the surplus and deficiency imbalance pricing levels will discourage gaming of the system (CE Peter T. Carnavos, R/U, pp. 7-10). Staff agrees that this variation to our balancing recommendations is reasonable provided Staff's transportation balancing recommendations are adopted here.

Astoria Generating Company, L.P. (Astoria) disagrees with tightening the dead-bands for generators. It argues that the generators lack the ability to manage their gas usage and are under the threat of contract termination by the Company (Radigan, R, pp.6-9 and Baker, R, pp. 2-8). During cross-examination (Tr., pp. 545-555), Astoria also established that

Staff did not perform any studies regarding costs implications on Con Edison's system by the generators (Exh. 805).

Astoria's arguments are a red-herring. Even though Staff did not perform independent studies to quantify impacts on the Company's system, we compared the activities of other generators within the state and the lower dead-band levels recommended by Staff are what similarly-situated customers are obligated to follow in, for example, the downstate National Grid territories (Staff Gas Policy, Direct, pp. 14-15). Moreover, maintaining similar dead-bands for customers in neighboring regions could potentially avoid disadvantaging one over another (Id.). Finally, by lowering the dead-bands, balancing customer will have no choice but to better manage their deliveries, which will have a positive impact in the Company's system and its firm customers (Id.). Accordingly, Staff's recommendations are reasonable and should be adopted.

iv. Oil to Gas Conversion Program Design

While Staff is not addressing "Oil to Gas Conversion Program Design" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

v. 100 Foot Rule

The Company sought to limit its cost responsibilities for material and installation costs for main extensions to multiple dwelling and groups of attached townhouses with individually metered apartments by proposing that it only be required to provide up to 100 feet of main multiplied by the average number of dwelling units per floor or the average number of dwelling units in the group of attached townhouses and one service line per building (CE Gas Infrastructure, Direct, p. 64). It stated that because of the costs associated with these line extensions, it should not be obligated to provide each of

these customers with 100 feet of entitlement. According to the Company, this change is consistent with the rules on electric line extensions (Id., pp. 64-65).

Staff disagrees with the Company's proposal. Rule 16 NYCRR Part 230.2 is unequivocal and obligates the gas utility to provide up to 100 feet of main and up to 100 feet of service without charge per applicant. Each individually metered customer is an applicant and is, therefore, entitled to their lawful main and service line extensions (Staff Gas Infrastructure, Direct, Corrected, pp. 36-37). In response, the Company argues that Staff fails to address or justify the disparate approach between electric and gas line extensions (CE Gas Infrastructure, R/U, p. 46).

The Company's proposal should still be denied. The Commission regulation is clear - a point the Company does not dispute (CE Gas Infrastructure, R/U, p. 46) - and, the fact that Staff did not justify why a distinction exists between electric and gas line extensions has no bearing on the legality of a regulation that was established in accordance with the State Administrative Procedure Act.

d. Steam Only Issues

i. Steam Variance

The Company does not propose any changes to its current steam system variance incentive mechanism in its direct or rebuttal testimonies. The current steam system incentive mechanism, as described on Tariff Leaf 54, Revision 2, states:

"if the variance exceeds 4,200 MMLb in any annual period, the Company will recover 90% of the variance-related fuel costs in excess of 4,200 MMLb, provided, however, that its unrecovered variance related fuel costs will not exceed \$5 million. If the variance is less than 3,900 MMLb in any annual period, the Company will credit Customers with 90% of the variance-related fuel cost savings less than 3,900 MMLb, provided,

however, that the Company will retain no more than \$5 million. ... The Company will recover from or credit to customers 100% of the variance-related fuel costs or savings associated with the variance above 4,200 MMBtu or below 3,900 MMBtu that exceeds \$5 million in any annual period."

The Company confirms in its response to City of New York interrogatory #S0372, that, "The Company is not proposing any changes to the current Steam Variance." (Ex. 141, p. 65). The Company's Steam Fuel Panel states in support of this position that, "most of the actions the Company can take to reduce Steam Variance beyond current levels are not cost effective when measured solely from the point of view of reducing losses" (CE Steam Fuel R/U, p. 4), and "there is very little else, if anything, that the Company can do economically to further reduce thermal losses." (CE Steam Fuel R/U, p. 5)

City of New York witness Arnett proposes to revise the steam variance targets. Using the City's proposed method, the deadband would be set between 3,300 MMBtus and 4,100 MMBtus; the Company would be able to earn an incentive for variance between 2,900 and 3,299 MMBtus, and would be charged a penalty for variance between 4,101 and 4,500 MMBtus (CNY Harvey Arnett Direct, pp. 22-23). All savings related to variance under 2,900 MMBtus would be credited to customers, and all fuel costs related to variance over 4,500 MMBtus would be charged to customers. Mr. Arnett also proposed to change the 90%/10% ratepayer to Company split of fuel cost/savings incentive or penalty to a 35%/65% ratepayer to Company split (CNY Harvey Arnett Direct, p. 23).

Staff does not agree with the Company's position that the existing deadband should remain unchanged nor with the proposal by the City of New York. Our proposed steam variance incentive mechanism deadband is based on an 80% Confidence

Interval using the latest 5-year average steam variance. The current levels of maximum Company exposure for failing to meet the variance target and ratepayer/shareholder split of variance related fuel costs or savings would remain unchanged. The deadband proposed by Staff would be set variance targets of between 3,601 MMLbs and 3,840 MMLbs (Staff Staff Steam Rate Direct, p. 19).

Staff's proposal should be adopted. The current deadband does not provide a sufficient incentive for keeping the variance level from increasing nor does it sufficiently incent the Company to improve the variance. This is supported by the fact that the Company has never been penalized for high variance (Ex. 682, p. 1), and the variance has been lower than the upper deadband level proposed by Staff since the rate year ending September 2009 (Tr. p. 503). In fact, the Company has earned incentives for every year except two in the eight years that the Steam Variance Incentive Mechanism has been in place (Ex. 682, p. 1). If Staff's proposed deadband were applied to the previous five years of historical data, the annual variance would have been below the upper deadband threshold every year since the rate year ending September 30, 2009 (Tr. p. 503); the Company would have earned an incentive for their lowest two years of variance, been penalized for their highest year of variance, and have fallen within the deadband for the remaining two years (Exh. 682, p. 1). Staff's proposal to maintain the Company's \$5 million maximum incentive/exposure is reasonable. Based on historic performance, the Company would not be expected to reach that level; and it would, therefore, be expected to generally have the opportunity to earn an incentive for good performance, and it will likewise nearly always have the opportunity to incur a penalty for poor performance.

The Company's argument that the deadband should not be

adjusted because of factors beyond the Company's control which will cause improvements made to the steam system to no longer yield gains in the variance is not persuasive; the Company's Steam Fuel Panel agreed that the same factors cited as potentially driving the annual variance up could also act to drive the variance down (Tr. pp. 500-501). The Company states that "there is very little else, if anything, that the Company can do economically to further reduce thermal losses" (CE Steam R/U Fuel, p. 5), but fails to consider gains from potential synergies realized in coordination with other capital expenditure projects and programs (Tr. p. 505). While the Company's Steam Fuel Panel suggests that using 90% confidence interval is generally accepted for statistical models (CE Steam Fuel R/U, p. 9) and that an 80% confidence level is not appropriate for this application, the method proposed by Staff provides a reasonable deadband based on historical data.

Staff's proposal is more reasonable than Mr. Arnett's deadband method for several reasons. First, Mr. Arnett's proposal diminishes the Company's incentive to continue improving its steam system by setting too wide of a deadband. If the deadband were to be set using Mr. Arnett's proposed method, the lower deadband amount would be set more than 200 MMBtu lower than even the lowest variance the Company has been able to achieve in the eight years that it has been collecting such data (Ex. 682, p. 1); this would, in effect, preclude the Company from earning any incentive at all. On the other hand, the upper deadband level would be set at 4,100 MMBtu, which is only 100 MMBtu less than the upper deadband amount currently in effect; this change is negligible since the Company has not had an annual steam variance figure higher than 4,000 MMBtu since 2007 (Ex. 682, p. 1). Second, it introduces a potential for skewing subsequent variance targets in its annually-revised

deadband. Under Mr. Arnett's proposed rolling 5-year mechanism, if Company does very well one year, the deadband targets would be adjusted downward making it harder for them to earn a return in the following years; this diminishes the incentive for the Company to continue working to improve its system. Third, the fuel cost sharing mechanism is less beneficial to ratepayers than the current mechanism and the calculations are flawed. Mr. Arnett states that the maximum gain or loss from his proposed steam variance target mechanism is approximately \$2.6 million (CNY Harvey Arnett Direct, p. 23), or 16.7 basis points, however Mr. Arnett incorrectly assumed that the Company would retain all of the variance-related fuel cost savings. Under the current 90%/10% ratepayer to Company ratio, the Company would only retain \$260,000 of the \$2.6 million, or about 1.7 basis points, therefore the current ratepayer to Company ratio is more beneficial to ratepayers than Mr. Arnett's proposed split. Finally, Mr. Arnett's application of Company witness Carnavos' methodology of setting line loss thresholds for the Gas business to the Steam business is unrealistic because it incorrectly asserts that the Steam and Gas business are sufficiently similar to utilize equivalent line loss mechanisms. As stated by the Company's Steam Fuel Panel, "steam and natural gas are different, and have different properties such as compressibility, latent heat or condensation, and other thermodynamic properties; there are no equivalent losses due to thermodynamic properties on the natural gas distribution system." (CE Steam Fuel R/U, p. 7).

Staff's proposed steam variance incentive mechanism should be adopted by the Commission because it sets the deadband at a reasonable level which provides for both an achievable incentive as well as a meaningful penalty for performance worse than what the latest data has shown to be achievable.

ii. Steam Business Development

While Staff is not addressing "Steam Business Development" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

iii. Request for Accelerated Recovery (59th St.)

The Company initially proposed to recover one-half of the savings associated with the 59th St. and 74th St. Gas Addition projects, to be allocated on a monthly basis toward the recovery of carrying costs of the projects. The remaining one-half of the savings would be reflected in the Company's monthly steam FAC (CE Steam Fuel, Direct, pp. 11-25). Staff recommends that the Commission reject the Company's proposal in this case because it did not conform with the direction provided to the Company by the Commission in its February 22, 2012 Order in Case 09-S-0794 (Staff Steam Fuel, Direct, p. 5).

In the Company's Steam Fuel Panel rebuttal testimony, the Company withdrew its recovery proposal for the costs of the gas addition capital projects at the 59th and 74th Street stations (CE Steam Fuel, R/U, p. 2).

e. Customer Ops Only Issues

i. AMR/AMI

While Staff is not addressing "AMR/AMI" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

ii. Low Income Programs

To qualify for the Company's electric low income program, customers must be receiving one of the following benefits: Direct Vendor payments; Utility Guarantee payments; benefits under Supplemental Security Income; Temporary Assistance to Needy Persons/Families; Safety Net Assistance; Supplemental Nutrition Assistance Program; or, have received a

Home Energy Assistance Program (HEAP) grant in the preceding 12 months (Qualifying Programs). Con Edison employs an automatic enrollment process that annually matches Company records with records from the New York City Human Resources Administration and the Westchester County Department of Social Services (the Agencies), to identify and automatically enroll customers receiving any of the Qualifying Programs. The Agencies incur certain administrative costs related to the file match, including paying the costs of mailing an opt-out letter to all recipients to give such persons the opportunity to opt-out of having their identifies made known to the Company.

Currently, customers in the program receive a discount of \$8.50 on the customer charge and a one-time waiver of a portion of the reconnection fee if their service is terminated for non-payment. The program is designed to serve 375,000 customers; however, the discount is adjusted by up to \$0.50 for the following year if the Company estimates, based on varying enrollment levels, that the annual cost of the program will exceed or fall short of the budgeted amount by greater than 5%. Any remaining over or under expenditures are deferred for future recovery or refund to customers. The reconnection fee waiver can also be reduced, if the Company projects that funding for such waivers will be exceeded. In accordance with this provision, the reconnection fee waiver was reduced to 60% of the fee, effective April 1, 2012 (Staff CPP Direct, pp. 11-12).

The Company's gas low income program provides service classification (SC)1 residential non-heating customers enrolled in the program a discount of \$1.50 on the monthly minimum charge, and SC3 residential heating customers a discount of \$0.3833 per therm for usage in the 4-90 therm block. The program is open to customers receiving a number of different social services programs, including all of those mentioned for

the electric program, plus Medicaid. The matching and automatic enrollment process is the same as the process for the electric program. The gas program also provides a reconnection fee waiver, with the same terms and conditions as the electric waiver. The gas low income program was designed to serve approximately 165,000 customers, and to cost \$6.4 million annually for the rate discount, and \$75,000 annually for the reconnection fee waiver. Any remaining over or under expenditures are deferred for future recovery or refund to customers (Staff CPP Direct, pp. 13-14).

In its direct testimony, the Company proposes keeping the current annual funding level for its electric low income program of \$38.25 million for the customer charge discounts, and \$0.5 million for the reconnection fee waivers (CE COP Direct, p. 66).

Con Edison also proposes keeping the same budget for its gas program: \$6.4 million for the rate discounts and \$75,000 for the reconnection fee waivers; but proposed to reduce the amount of the SC1 discount in light of higher forecasted levels of participation. In order to make the Qualifying Programs for the two discounts consistent, Con Edison proposed to discontinue Medicaid as a Qualifying Program for gas (CE COP Direct, pp. 48-51).

With respect to the Agencies' costs of participating in the matching process, the Company proposed that, if the Agencies refuse to self-fund these costs, and if the Commission decides that the Company should fund this expense, the revenue requirement needs to be increased to reflect the projected costs (CE COP Electric Direct, pp. 66-67).

Staff proposed that the electric and gas low income program budgets and their recovery in rates remain at the same levels and subject to the same accounting treatments as provided

for in the respective rate orders. We also recommended that the Commission modify the enrollment processes, and gas discount levels.

For gas service, we recommend that the \$1.50 SC 1 credit be discontinued, as this amount provides no meaningful benefit to participants; and that the monies saved be shifted to SC 3 heating customers, increasing their monthly volumetric discount to \$0.4836 per therm. We also recommend that the Commission adopt the Company's proposal to eliminate Medicaid as a Qualifying Program for the gas low income discount; however, instead of grandfathering existing Medicaid customers as proposed by the Company, we recommend that the Company be directed to send a letter to all its SC 3 gas low income program participants, informing them that Medicaid will no longer be a Qualifying Program for enrollment into the Company's gas low income program, and that in order to continue receiving the rate discount, Medicaid recipients should apply for one or more of the remaining Qualifying Programs, if they have not already done so (Staff CPP, pp. 14-15).

With respect to the Agencies' matching costs, we recommend that, should either of the Agencies decline to complete the matching and notification process, the program in the relevant part of the service territory would be limited to only those qualifying customers whom Con Edison can identify using its own resources (Staff CPP Direct, pp. 17-18).

PULP proposes that the Company freeze low income rates at levels in effect before the current case, that hard caps on program funding be eliminated, and that instead, low-income affordability assistance and participation levels be estimated by the extent of need for such assistance (Brockway Direct, p. 25). PULP also claims that the Company does not provide sufficient value to low income customers for the System Benefits

Charge payments they make, and more energy efficiency programs geared to low income customers should be offered (Brockway Direct, p. 3).

UIU proposes that for SC1 Con Edison gas low income customers the discount of \$1.50 should be increased to \$3.00 per month and that heating gas customers should be provided a \$10 monthly credit plus the current per therm discount. The proposed budget for this gas low income program was estimated to be \$13.927 million (Collar Direct, p. 12). For the electric low income program, UIU proposes to raise the customer discount to \$10.50 per month and to discontinue the mechanism that adjusts the rate discount if the cost of the discount varies by 5% in either direction, and also to discontinue the reduction in reconnection fee waiver level if the budget limit is neared, but did not furnish an estimate of the cost of this proposal (Collar Direct, pp. 21-22). UIU recommends that reconnection fee waivers not be withheld from any customer who previously received such a waiver in the last rate plan (Collar Direct, p. 23). UIU also opposes removing Medicaid as Qualifying Program for the gas discount (Collar Direct, p. 10) and recommends that the file matching be conducted twice annually, rather than once (Collar Direct, p. 25).

Noting the recent increase in participation in the electric program to 430,000 customers, NYC, in its direct testimony recommends setting the baseline of customers for the electric low income program at 450,000 customers, and raising the budget from \$38.25 million to \$45.9 million (Noel Direct, p. 9). As corrected by witness Noel on the stand, NYC has no objection to SSI remaining a qualifying program; however, it cannot include its SSI database in the match (Tr. 1990). NYC also states; however, that SSI customers are automatically enrolled in one of the other Qualifying Programs. NYC proposes

no changes to the gas low income program and opposes removing Medicaid as a Qualifying Program as proposed by the Company (Noel Direct, p. 11). Finally, NYC argues that it is unable to continue to fully fund the file match process, and proposes that the Company underwrite the costs of its opt-out letter to potential participants. The estimated cost to the City for the opt-out letter is \$37,000 (Noel Direct, pp. 15-16).

Westchester also seeks to have the Company fund these costs (Mugrace Direct, p. 77). Westchester County proposes that Con Edison pay for the opt-out letter. The estimated cost of the letter to Westchester County is \$7,122.99 (Mugrace Direct, p. 76).

In its update/rebuttal testimony, the Company realized its assumed number of customers eligible for the electric low income program was too low and enrollment levels needed to be adjusted upwards to 430,000 participants. Keeping the same level of funding would therefore require the customer charge discount for electric low income program to be reduced to \$7.40 per month (CE COP R/U, p. 10).

On rebuttal the Company agreed with Staff that its gas low income program should be redesigned as Staff suggests (CE COP R/U, pp. 47-48), with the monies devoted to the current \$1.50 gas SC 1 credit being redistributed to SC3 customers. The Company states the per therm discount should be set in consideration of the sales forecast so that the amount of \$6.4 million will be equally distributed among its SC3 low income gas customers by therm use.

In its rebuttal testimony the Company opposes adding Medicaid as a Qualifying Program for the electric low income program, as Con Edison believes it may lead to a significant increase in program participation and, therefore, significant additional program costs (CE COP R/U, pp. 52-53). Con Edison

also opposes unlimited application of the reconnection fee waiver. The Company suggests that low income energy efficiency programs be addressed in the Energy Efficiency Portfolio Standard (EEPS) proceeding, Case 07-M-0548. Furthermore, Con Edison notes that low income energy efficiency programs do exist and are offered by NYSERDA (CE COP R/U, pp. 60-61).

In our rebuttal testimony (Staff CPP Rebuttal, pp. 2-3), we contend that this is the wrong forum to address energy efficiency, and that it should be addressed in Case 07-M-0548, the Commission's EEPS Proceeding. In addition, NYSERDA has implemented statewide low income energy efficiency programs, such as EmPower-NY. Taking these programs into account, there are substantial opportunities for low income customers to participate in low income programs across the state, including in the service territory of Con Edison. We also note that, with the exception of the funds for reconnection fee waivers, there are no "hard caps" on low income program funding, that the monthly rate discount portions of the electric and gas low income programs are provided for all eligible customers, regardless of how many may apply, and the Company is allowed to fully recover all such expenditures.

On rebuttal, UIU proposes that if no resolution is reached among the parties regarding funding of the opt-out letter, the costs should be considered part of low income programs (Collar Rebuttal, p. 10). PULP similarly proposes that the Company reimburse the Agencies for their out-of-pocket expenses (PULP Rebuttal, pp. 10-11). PULP also proposes that Medicaid be deemed a Qualifying Program in both the gas and electric low income programs (PULP Rebuttal, p. 12). Westchester notes that UIU's proposal to conduct the file match twice annually would double the costs, including the costs of the opt-out mailing (Mugrace Rebuttal, p. 9).

No party presented a compelling argument as to why the current low income program budgets, or their associated reconciliation processes, should be changed. The Company will have sufficient funds to serve all eligible customers, and will be permitted to defer for future recovery any costs in excess of budgeted amounts (or return any excess collections). With respect to electric service, the mechanism which allows the monthly discount amount to be adjusted by up to \$0.50 annually if a 5% tolerance band is exceeded, provides an important cost control. In the current circumstances, absent this proceeding, the monthly electric rate discount would be reduced to \$8.00 in the following rate year. This should be allowed to occur (and up to \$0.50 added back in a subsequent rate year, if declining enrollments cause rate year expenditures to fall below the band). Assuming the current level of participation (430,000) continues in the rate year, this adjustment would bring the costs within 8% of budget, which is a reasonable level of expense. With respect to gas, Staff's proposed program modifications would both bring the program within budget, and given the significantly reduced pool of participants (by eliminating the SC1 benefit, as well as eliminating Medicaid as a Qualifying Program), substantially reduce the volatility of future enrollments.

Regarding benefit levels for the gas low income program, no party presented a compelling argument why the \$1.50 SC1 benefit should be continued. Some simple math illustrates the matter: under the Company's proposed rates, a minimum SC1 bill would amount to \$19 (Exh. 638). The current discount of \$1.50 therefore would provide a discount of less than 8%, even on a minimum bill. In addition, assume a low income customer receives a gas bill of \$28, the Company's proposed charge for a typical SC1 customer bill of six therms, and an electric bill of

\$75, the Company's proposed charge for 300 kWh (Exh. 511), after applying the \$8.00 electric discount, which the customer would receive during the rate year. Their combined household energy costs would total \$103. This is only 6.3% of gross monthly income for a household with annual income of \$19,530, which is the federal poverty level for a family of three.³² Furthermore, adding the \$1.50 discount back in would only reduce the household utility bill to 6.2% of income. UIU's proposal to increase the SC1 benefit to \$3 would only reduce it to 6.1%, and given current SC1 participation (148,692 as of June 30, 2013)³³ would cost \$2.7 million.

This is a considerable amount of funds - approximately 42% of the current \$6.4 million program budget -- and would furnish only a nominal benefit to cooking customers. Such funds are much better used as Staff recommends, and the Company agreed: enhancing the benefit provided to SC3 heating customers; whose bills are much higher, and who bear much greater health and safety risks due to loss of service. The Company proposed that the amount of the SC3 volumetric discount may need to be adjusted to reflect the latest sales forecast; however, it did not explain what adjustments are required, or when the appropriate amount would be known. Pending any further refinements based on later information, the discount we recommend of \$0.4836 per therm should be adopted.

The increases in discount levels proposed by UIU and PULP should be rejected. Such drastic increases in benefit levels would unacceptably increase the rate impacts of the programs on non-participants, and upset the balance between assisting low income customers and maintaining just and

³² <http://aspe.hhs.gov/poverty/13poverty.cfm>

³³ Case 09-G-0795, Con Edison - Gas Rates, Con Edison Gas Low Income Quarterly Report, dated July 31, 2013.

reasonable rates for all ratepayers. UIU's proposal to broaden eligibility for the reconnection fee waiver should also be rejected; although the Company has and should retain the discretion to grant a second waiver to past recipients, on a case by case basis, for good cause shown, and provided the budget for such waivers is not exceeded.

Regarding income eligibility for Medicaid when compared to other programs, NYC witness Noel opined that since many Medicaid customers also receive some other type of low income assistance, eliminating Medicaid as a qualifying program should not materially change the overall number of program participants (Noel Direct, p. 12). Ms. Noel also correctly understood that, while the percentage of Medicaid customers who do not qualify for another program may be slight, that small percentage could still be large number when applied to a large base; which is why NYC opposed adding Medicaid as a Qualifying Program to the electric discount (Tr. 1993). Given the current participation in the electric program (430,000), adding even a small fraction could have dramatic consequences for enrollment levels. On the other hand, the gas program is already much smaller (178,381 as of July 31, 2013), and providing a gas discount only for SC3 gas customers (24,689 as of July 31, 2013) will further considerably reduce the base, from which the small fraction of participants who receive the discount solely on the basis of receipt of Medicaid may be impacted.³⁴ Given Ms. Noel's opinion regarding Medicaid customers' eligibility for other programs, having the Company send a letter to SC3 participants, encouraging them to apply for other Qualifying Programs as Staff proposes, should eliminate it entirely. While SSI recipients may not be picked up in the Agencies' file match, it appears

³⁴ Case 09-G-0795, supra.

from Ms. Noel's testimony that most of them are also recipients of other Qualifying Programs. In addition, as long as it remains a qualifying Program, SSI recipients can enroll directly with the Company, with appropriate documentation (Staff CPP Direct, p. 18).

Regarding the Agencies' costs related to the file match process, the record shows that Con Edison's low income programs provide substantial benefits to low income customers served by the Agencies, which helps keep the costs of other kinds of energy assistance down (Tr. 2005). While the absence of Con Edison's program would not change the budgets of other programs, e.g., cash assistance, helping defray energy costs allows such funds to be directed to other purposes, e.g., food and housing, and thus serves an important purpose in supplementing the Agencies' other programs (Noel Direct, p. 4). The Company is furthermore a significant taxpayer in its service territory, supplying a substantial portion of the funds from which the Agencies' budgets are drawn (Tr. 2009). Finally, it is important to emphasize that the Agencies do not reimburse Con Edison for its costs of participating in their programs, such as HEAP (Tr. 2004), yet seek funds from Con Edison to perform functions they are required to perform by law.

In view of the significant contribution Con Edison makes to the Agencies' budgets, and the significant benefits the Company's low income programs provide to the Agencies and their constituents, it's simply unreasonable and inappropriate to require the Company to reimburse the Agencies for administrative costs of the match, totaling about \$45,000 for NYC and Westchester (Noel Direct, p. 16; Mugrace Direct, p. 76). In addition, since the Commission exercises no authority over the Agencies, it has no way to ensure that they will expend any funds provided the Company for the intended purpose.

Furthermore, under our recommendation, each of the Agencies has the discretion to determine whether the costs of participation in the file match return appropriate benefits to the Qualifying Program recipients in their respective districts. Staff's proposal should be adopted by the Commission, and the proposals by NYC and Westchester should be rejected.

In view of the Agencies' concerns regarding matching costs, UIU's proposal to perform the match twice annually should be rejected. Since many benefits (e.g., HEAP) are provided annually, there is scant advantage to requiring more frequent matches. In addition, the Company's programs are designed to furnish discounts to participants for a full year, and performing the match more frequently only adds greater volatility and uncertainty to the program, both for Con Edison as well as for participants.

Regarding low income energy efficiency programs, little more need be said, other than that this issue clearly belongs in Case 07-M-0548, not here.

iii. Mandatory Hourly Pricing

1. MHP - KEMA Study Brief

It is Con Edison's position that the study conducted by its consultant, KEMA Inc., and described in the April 30, 2012 Mandatory Hourly Pricing (MHP) Program Evaluation Report, concludes that customers who are subjected to the MHP rate are generally not responsive to changes in hourly prices (CE Electric Customer Operations Panel (COP) Direct, p. 89). Staff testified that the econometric customer demand models included in the KEMA report contain significant methodological flaws that call into question the validity of the report's conclusions (Edmundson Direct, p. 35).

In rebuttal, the Company's Panel took issue with Staff's assertion that the lack of significance of the

coefficients on the price variable in KEMA's models could be due to the models' small sample sizes. The Panel stated that "elasticity estimates from smaller samples are still unbiased predictors of the true population parameter" (CE Electric COP U/R, p. 77). While this may be the case, there is still the likelihood that the estimates from such small sample sizes are not consistent (i.e., have unreasonably wide confidence intervals), an equally undesirable characteristic. The relationship between bias and consistency is analogous to the relationship between accuracy and precision. Reasonable econometric model estimates should be both accurate and precise (i.e., unbiased and consistent).

In rebuttal, the Company states that Staff challenged KEMA's use of a Cobb-Douglas econometric model in its study (CE Electric COP U/R, p. 77). However, the Company is in fact off base on this point. Our concern with KEMA's study methodology wasn't focused on its choice of a Cobb-Douglas model specification, but rather on the fact that a separate model was developed for each individual customer, season, day of the week, and hour of the day combination. Compartmentalizing the data in such a way unnecessarily restricts the sample size of each model, increasing the likelihood that the estimates will not be statistically significant (Edmundson Direct, p. 41).

Witness Edmundson testified that a fixed effects model estimated on a pooled data set of all customers would have allowed for a much larger sample size to correct the small sample size issues (Edmundson Direct, p. 42). In rebuttal, the Company claims that "while it may have been useful to have attempted one or more pooling techniques, we believe that the result would have only strengthened our findings and recommendations" (CE Electric COP U/R, p. 78). However, it did not provide any pooled data model results which could have

allowed for sufficient sample sizes to correct for some of the shortcomings we identified.

Staff had additional criticisms of the KEMA study demand model specifications. In addition to the price of electricity and the number of cooling/heating degree days, some sort of economic variable should have been included in the model to account for any changes in the economy that might have led to changes in electricity use (Edmundson Direct, pp. 43-44). In rebuttal, the Company acknowledged that there are other factors that impact a customer's decisions, in addition to price and weather. The Company stated that "the electricity cost, in many instances, is a smaller, less impactful expense component for a customer than labor costs, taxes, or rent" (CE Electric COP U/R, p. 79). Thus, while the Company recognized that this is an issue within the model, nothing was done in the KEMA study to account for this. Finally, as shown in Confidential Exhibit 746, [REDACTED]

[REDACTED]

In summary, given the methodological flaws we identified regarding the econometric demand models contained in the KEMA study, no weight should be given by the Commission to KEMA's conclusion in its report that MHP customers are not responsive to changes in hourly prices.

2. Other MHP Issues

We recommend that the Commission direct Con Edison to provide training to current MHP customers to educate them about

how they can better manage their commodity cost under the MHP rate (Graves Direct, pp. 45-49). The Company agrees it needs to bolster its outreach and education efforts with the goal of encouraging customers to better react to price signals and shift energy off-peak (CE COP U/R Electric/Gas, p. 72). Staff does not recommend that the Commission expand MHP for Con Edison customers at this time. The Company is still completing metering for MHP customers to implement reactive power measurement capabilities-- this should be completed at the end of 2014. Con Edison should be directed by the Commission to develop a plan to expand MHP down to 300 kilowatts (kW) after installation of reactive power metering capabilities (Graves Direct, p. 45). The Company proposes an evaluation of the state of interval communications following the completion of reactive power metering (CE COP U/R Electric/Gas, pp. 72-73). The Commission should direct Con Edison to provide the training recommended by Staff witness Graves to the entire MHP customer class. As discussed above, after the Company completes the reactive power metering, it should provide an evaluation to the Commission regarding the state of interval meter communications and an evaluation of the expansion of MHP to customers with demands of and higher 300 kW.

iv. Billing

While Staff is not addressing "Billing" in this brief we reserve the right to address this issue in our Reply Brief, if necessary, based on comments in the parties' Initial Briefs.

v. ICAP Billing Change

We propose that Con Edison change the way in which it charges Mandatory Hourly Pricing (MHP) customers for capacity to a system based on the customer's usage during the system peak (Graves Direct, p. 34). Currently, Con Edison charges MHP customers for capacity based on the customer's individual peak

demand level (Graves Direct, p. 30). Capacity costs are driven by the amount of generating capacity the New York Control Area (NYCA) needs at the peak hour to supply electricity to all customers. Because the capacity cost are driven by needs during the NYCA peak, capacity charges should be based on MHP customer's individual demand during the NYCA peak (also known as customer's Capacity Tag or ICap tag). All the other large investor-owned utilities in the state charge their customers based on ICap tags. The Con Edison does not disagree with our assertion that capacity charges for MHP customers should be based on individual customer ICap tag (CE Electric Rate Panel U/R, p. 34). However, the Company has concerns with integrating an ICap methodology into the current billing system (CE COP U/R Electric/Gas, p. 87). The Customer Operations Panel claims that because the billing changes are complex, the Company would not be able to implement the required changes by May of 2015, as we have recommended (CE COP U/R Electric/Gas, p. 87).

While we believe that the Company is capable of developing training and implementing billing changes by the dates we recommend, it is in the interest of customers that the training and billing changes be postponed to May 2015 and May 2016, respectively. The reason for this is that on August 13, 2013 the Federal Energy Regulatory Commission (FERC) accepted the New York Independent System Operator's (NYISO) proposal to create a new capacity zone in the Hudson Valley covering a portion of Con Edison's service territory (Docket No. ER13-380-000, Order Accepting Proposed Tariff Revisions and Establishing A Technical Conference, 144 F.E.R.C. ¶ 61,126 (Issued August 13, 2013)).

This change will be implemented in May 2014. Delaying the training and billing changes Staff has recommended will prevent confusion among customers and will provide the extra

time requested by Con Edison to implement this change directed by FERC. The Commission, therefore, should direct Con Edison to implement the change to capacity billing proposed by Staff with customer training to begin in the Spring of 2015 and billing based on ICAP tags to begin May 2016.

vi. Retail Access Online Calculator

Staff recommends that the Commission require the Company to provide a historical online bill calculator, which enables consumers to make informed comparisons between ESCO and utility charges (Staff CPP Direct, p. 24). We also recommend that \$300,000 be provided to Con Edison to provide such a tool (Staff CPP Direct, p. 25).

UIU proposes the Company launch a web-based historical utility bill calculator in addition to other bill comparison tools (e.g., enhancements to the utility consolidated bill including comparative pricing information) as part of the Company's customer outreach program (UIU Rate Panel Direct, p. 66).

PULP proposes that Con Edison provide ESCO customers with on-the-bill comparisons of the charges the customer has with its ESCO and what the customer would have paid had she or he not used an ESCO (Brockway Direct, p. 4).

In its rebuttal testimony, Con Edison supports an online historical bill calculator that provides price comparisons over an annual period; however, the Company recommends waiting until a decision is reached in the generic retail access proceeding, Case 12-M-0476 (CE COP Rebuttal, p. 27).

Our recommendation, which the Company and UIU support, should be adopted, because customers will be able to make better informed decisions when they have comparison information on their utility and ESCO charges at hand. PULP's proposal should

be rejected because the nature of ESCO services makes it imperative to do a cost comparison over a period of time rather than on a month to month basis. ESCOs may offer additional services, i.e., fixed rates, airline mile earnings, service plans all or some of which may be included in ESCO prices, therefore one can't compare month to month bills effectively. Our approach is the most logical, helpful and useful as it allows customers to compare prices on an annual basis.

We disagree that development of the calculator should be delayed as the Company recommends. If the Commission decides in Case 12-M-0476 that online bill calculators should not be offered, the money can be deferred for the future benefit of ratepayers, or if such a Commission decision is rendered prior to a determination in these cases, removed from revenue requirement.

vii. Service Terminations

PULP states that there is an overuse of service interruptions as a collection tool by Con Edison and that it does not rely enough on improving practices for engaging with payment troubled customers who lack the resources to pay in full and on time. PULP proposes the Company adopt a goal of reducing disconnections over time (Brockway Direct, p. 20).

In its rebuttal testimony Con Edison claims that it disconnects customers in arrears only as a last resort and offers many options including deferred payment agreements (DPAs), and levelized payments plans to help financially troubled customers (CE COP U/R, p. 58).

Staff contends that PULP is wrong in its characterization of overuse of terminations, and points out the HEPFA protections in place in New York to safeguard low income customers, among others, along with the fact that terminations

are not only a tool to compel payment, but also a safeguard to prevent further loss (Staff CPP Rebuttal, pp. 6-8).

Furthermore, on June 18, 2013, we propounded IR DPS-704 on PULP, asking "How many residential disconnections in each month were of low income customers?" To date, PULP has declined to respond. Staff believes PULP cannot answer this question; as to the best of our knowledge, even the Company does not track the income level of terminated customers.

The Commission should reject PULP's proposal because it would go well beyond the Commission's existing policy directives, because it would attempt to supplant or restrict the exercise of the utility's business judgment by limiting the use of disconnections for collection treatment, and because it fails to propose any alternative and equally effective strategy for ensuring that customers pay for utility service rendered.

viii. Outreach and Education

The Company requests a budget of \$2.99 million for outreach and education activities in the rate year (CE COP Direct, p. 69). Staff recommends that Con Edison conduct outreach to collect customer cell phone numbers and e-mail addresses. In addition, the Company should further develop text messaging and e-mail alerts for storms and major outages. We also recommend that the Company direct a portion of its outreach budget to inform customers of the benefits of natural gas, as well as the steps customers should take to convert to natural gas (Staff CPP Direct, p. 38).

In rebuttal, the Company stated that since "the Commission has not yet identified what additional outreach and education will be required as part of Cast 12-G-0297, it is not possible to determine the costs associated with those efforts. The requested funding for outreach and education as proposed by the Company will be used to carry out the Company's outreach and

education plan as explained in detail in the Company's initial testimony. The budget does not account for the inclusion of additional outreach and education that may be required in the future related to Case 12-G-0297." (CE COP Rebuttal, p. 69).

We believe that the outreach and education plans as a whole should be fluid in nature and be tailored based on changing needs, which was further supported in Con Edison's Customer Operations Panel cross. Con Edison's Panel stated that "there are some opportunities within some of the activities that we currently undertaken where we could share the gas conversion message" (Tr. 1921). It was also pointed out that Con Edison could carry the message about gas conversions to its community outreach events, its website, and its educational media messaging (videos, and web based information), with no additional costs being incurred.

Con Edison will be able to perform outreach and education related to text messaging and e-mails for storm alerts, as well as outreach related to oil to gas conversions, within the outreach and education funding requested. Staff's recommendations that the Commission require the Company to add such outreach and education initiatives into its plan should be adopted.

ix. Use of Corporate Name

Staff testified that, with limited exceptions,³⁵ no non-affiliate entity should be allowed by Con Edison or CEI to use the Con Edison name, trade names, trademarks, service marks

³⁵ The exceptions under which Con Edison or its parent, Consolidated Edison Incorporated, could license the use of "Con Edison" or a derivative thereof should be limited to use in movie and television productions; for the joint marketing of Commission-approved energy efficiency programs and to industry organizations to which Con Edison is a member, and in an circumscribed manner if an affiliate business which utilizes the Con Edison name or a derivative of that name is sold to a non-affiliate or otherwise becomes a unaffiliated with Con Edison.

or a derivative of a name of Con Edison (Staff Policy Panel, pp. 21-22). We provided revised language regarding the use of the Con Edison corporate name, which we recommend be included in the Company's existing Standards of Competitive Conduct (Exh. 232). No party rebutted or cross-examined the Staff Policy Panel regarding this proposal.

There have been instances in recent years where utilities or their affiliates have either sold off unregulated subsidiaries, or licensed the use of their corporate name or trademark to third parties.³⁶ These arrangements can cause significant customer confusion and perceived deception; and the Commission has acted to address such situations through similar modifications to the Standards of Conduct for Niagara Mohawk d/b/a National Grid³⁷ and Central Hudson Gas & Electric Corporation.³⁸ For the same reasons, Staff's proposal should be adopted here.

f. Earnings Sharing Mechanism for Partial year ending December 2013

The most recent electric, gas and steam rate plans for Con Edison all expired well before the beginning of the rate year. The rate plans address how Con Edison will comply with the provisions of each plan in the event that the Company does not file for new rates to take effect right after the end of the each rate plan. In its rate filings, the Company discussed the continuation of the provisions of each rate plan for the period

³⁶ See, for example, Case 13-M-0225, Proceeding on Motion of the Commission to Determine Whether New York State Electric & Gas Corporation Should be Required to Take Certain Actions to Protect its Name and to Minimize Customer Confusion, Order Instituting Proceeding and to Show Cause (Issued July 19, 2013).

³⁷ Case 10-E-0050, supra, Order Adopting Rate Plan Provisions (Issued July 15, 2012).

³⁸ Case 12-M-0192, Joint Petition of Fortis Inc. et al. and CH Energy Group, Inc. et al. for Approval of the Acquisition of CH Energy Group, Inc. by Fortis Inc. and Related Transactions, Order Authorizing Acquisition Subject to Conditions (Issued June 26, 2013).

between the end of the respective plan and the beginning of the rate year (Muccilo Electric Direct, pp. 32-38, Muccilo Gas Direct, pp. 24-28, Muccilo Steam Direct pp. 31-34).

Except for the Company's proposed treatment of any potential sharing of excess earnings, we did not take exception to the Company's proposals for continuing the provisions of the current electric, gas and steam rate plans for the period from end of each respective rate plan to January 1, 2014, the first day of the rate year (Staff Policy Panel Direct, pp. 80-81). To measure the return on equity (ROE) during the period between the end of the respective rate plans and the beginning of the rate year, the Company proposes to adjust rate base to reflect the seasonal impact of sales on operating income by applying the percentage of annual revenues during the period to the adjusted average rate base during the period (Staff Policy Panel Direct, p. 81). Actual operating income for the period would be divided by the adjusted rate base to calculate overall rate of return earned (Id.).

We opposed the Company's excess earning sharing proposal, since the proposed method will not balance out over a period shorter than twelve months and, more importantly, there's nothing in the existing rate plans that would suggest such a method to calculate earnings in the manner proposed by the Company is proper (Staff Policy Panel Direct, p. 82).

In rebuttal, the Company's maintains that the proper rate base to calculate ROE for the period between the end of the respective rate plan and the beginning of the rate year is an adjusted value to reflect the impact on operating income of the seasonal nature of sales. Mr. Muccilo notes that the Company's proposed method is the same method as the partial period method adopted in the current electric rate plan for Orange and Rockland Utilities, Inc. (Muccilo Electric Rebuttal, pp. 48-49).

The Company's proposal should be rejected by the Commission. Con Edison has failed to address our concern that its proposal will not balance out over a period shorter than twelve months and thus, will be unfavorable to customers. Additionally, the Company does not dispute that its proposed method is simply not a provision in any of its current rate plans. Further, reference to O&R's current rate plan is of no value here as it has no precedential effect as it was the result of a joint proposal to the Commission. For all of the above reasons, Con Edison's proposal must be rejected by the Commission.

g. Smart Grid

See discussion directly below.

h. Reconciliation Report

Pursuant to Commission Order, the Company is currently recovering its Smart Grid project expenditures through a customer surcharge and will continue that method of recovery until the capital projects are included in rates (Staff Accounting Panel, pp. 139-140).

Con Edison proposed to include only a portion of its Smart Grid project costs in rates and continue the surcharge approach for other (Staff Accounting Panel, p. 140). Staff recommended that the Company's Smart Grid project costs be reflected in electric rates in the rate year and that the surcharge mechanism cease as December 31, 2013 (Staff Accounting Panel, p. 140). Staff testified, that in order to effectuate this change, the Company would be required to file, approximately 60 days after the expiration of the surcharge mechanism, a reconciliation of Smart Grid revenues collected and the Company's actual costs for the nine months April 1, 2013 through December 31, 2013 that the surcharge mechanism would be effect (Staff Accounting Panel, p. 140).

Con Edison agreed with Staff's recommendation to move Smart Grid costs to base rates on the condition that the rate year amortization of deferred Smart Grid project costs be increased to reflect additional project costs deferred between through December 31, 2013, but not reflected in the Company's initial proposal (Con Edison Accounting Panel R/U, p. 63-64). The Company was silent on Staff's call for a final reconciliation of Smart Grid project costs 60 days after the expiration of the surcharge mechanism.

Staff's updated revenue requirements reflect the additional amortization requested and supported by the Company. Staff's call for a final surcharge reconciliation should be filed with the Commission 60 days after the expiration of the surcharge mechanism.

i. Site Investigation and Remediation

With regard to Con Edison's site investigation and remediation (SIR) program, in its Order in Case 11-M-0034, the Commission required that, in future rate filings in which a utility seeks to recover SIR expenses, the utility must furnish certain sworn testimony.³⁹ Specifically, the Commission required that the utility (1) establish that the remediation process is in compliance with existing timetables and Department of Environmental Conservation (DEC) requirements; (2) discuss the utility's SIR cost control efforts, including an attestation to utility compliance with joint utilities' best practices inventory; and (3) indicate the results of any internal process the utility may have conducted with respect to review of SIR procedures, and in particular explain how internal controls are brought to bear on SIR projects.

³⁹ Case 11-M-0034, Review and Evaluation of the Treatment of the State's Regulated Utilities' Site Investigation and Remediation Costs, Order Concerning Costs for Site Investigation and Remediation (Issued November 28, 2012)(Ordering Clause 3, p. 32).

The initial and update testimony of Company witness Price, together with exhibits included in the record in this case, satisfy these requirements. Of particular note, in response to DPS-175, Con Edison stated that, within the last five years, none of its SIR sites are "non-compliant" with applicable DEC or other regulatory orders or agreements (Exh. 229, p. 1). In addition, the joint utilities' filed the "Inventory of Best Practices for Utility SIR Programs" (Inventory) during the pendency of these rate cases. The Inventory can be found in Exhibit 230. Subsequent to the joint utilities' filing of the Inventory, in response to DPS-512, Con Edison stated that it was not aware of any circumstances where it deviated from the best practices listed in the Inventory (Exh. 229, p. 17).

j. Management Audit

Public Service Law (PSL) §66(19) requires that, upon application of a gas or electric corporation for a major change in rates, the Commission review the utility's compliance with the most recent management audit of the utility. The most recent comprehensive management audit of Con Edison was concluded in spring 2009 and the final audit report, which included 92 recommendations, was issued on August 7, 2009. The Company filed its Audit Implementation Plan for each of the 92 audit recommendations on October 5, 2009.

As of the time Staff filed its testimony in this case, the Company had implemented 91 of the 92 audit recommendations with one remaining recommendation to implement. This final audit recommendation pertains to the Company's work management system and is scheduled to be implemented September 2014 (Testimony of Henry Leak, pp. 9-10). Staff has reviewed the Company audit implementation efforts and found the Company to be

responsive to the consultant's audit report, and in compliance with this Commission's directives and orders.

In conjunction with its audit implementation efforts, the Company has estimated the savings resulting from the implementation of the management audit. These savings are associated with both capital expenditures and O&M expenses. Based upon this information, Staff calculates the Rate Year net cost savings resulting from the Management Audit to be approximately \$40 million.

k. Other Policy Issues

i. Rate Adjustment Clause Continuation

Con Edison proposed to cease collecting any revenues subject to refund through the Rate Adjustment Clause (RAC) currently in effect for electric, gas and steam (Muccilo Electric Direct, pp.77-82). The Company argues that the amounts collected through December 31, 2013, subject to potential refund, will grossly exceed any reasonable expectation of refund liability and that that continuation of the RAC is harmful to ratepayers (Muccilo Direct, p. 82).

We recommend that the Commission reject the Company's proposal and that RAC recovery continue for the electric, gas and steam businesses until the Commission's investigation in Case 09-M-0114 is complete. We further noted that while Con Edison claims that the RAC could have an impact on financing costs, none of the Company's financing witnesses raise this as an issue (Staff Policy Panel Direct, pp. 56-57).

The Company's proposal to discontinue the RAC should be rejected. There could be specific investments that are found to be imprudent and we expect the Commission will want to recover the carrying costs associated with such investments that have been paid for by customers up until the time that it issues a final order in Case 09-M-0114.

ii. Earnings Sharing Mechanism

We did not recommend that the Commission implement Earnings Sharing mechanisms (ESMs) in these proceedings because such rate making mechanisms are typically and appropriately only implemented within the context of multi-year rate plans (Staff Policy Panel Direct, p. 10). We argued that ESMs have generally been found necessary within the context of multi-year rate plans due to the greater uncertainty inherent in their significantly longer forecasting periods. ESMs have also been implemented in order to encourage greater efficiencies that ultimately inure to the benefit of ratepayers when rates are reset (Staff Policy Panel Direct, p. 11).

Staff's proposal should be adopted. Not only is there no multi-year rate plan presented for the Commission's consideration here, we believe the negative revenue requirements in the instant proceedings should dispel any notion that Con Edison would not elect to file for new rates to go into effect after the end of the 2014 rate year.

iii. Rate Reduction Options

Based on the recommendations contained this Initial Brief, we recommend revenue requirement decreases for electric, gas and steam of \$146.359 million, \$95.255 million and \$10.156 million, respectively. Our recommendations are indicative of the forecasted cost of providing service in the rate year. That is, the revenue requirement requirements have not been materially impacted by the use of rate moderators.

The Company's expiring multi-year rate plans contain numerous provisions that have resulted in large regulatory deferrals (Staff Policy Panel Direct, p. 25). The cumulative balances of these regulatory deferrals; however, generally offset each other in the recommended revenue requirements (Staff Policy Panel Direct, p. 25). Con Edison proposes, with limited

exception, a three-year amortization period for regulatory deferrals, which we support (Staff Policy Panel Direct, p. 26).

While the revenue requirements reflect a reasonable disposition of regulatory deferrals, the Commission may determine a different disposition (Staff Policy Panel Direct, p. 26). The many regulatory deferrals provide the Commission with a range of options for their disposition (Staff Policy Panel Direct, pp. 26-27). For example, should the Commission want to further mitigate the Company's revenue requirement, it could either extend the amortization period of regulatory assets or shorten the amortization period of regulatory credits (Staff Policy Panel Direct, p. 27). Likewise, should the Commission desire to adjust the revenue requirement upward, the amortization period of regulatory credits could be extended or eliminated, or the amortization period of regulatory assets could be shortened (Staff Policy Panel Direct, p. 27). The Commission further could leave current electric, gas or steam rates unchanged and require the Company to defer the revenue requirement decreases to mitigate any future rate impacts (Staff Policy Panel Direct, p. 27).

XIII. Conclusion

For the reasons stated herein, Staff's proposals and adjustments should be adopted.

Respectfully submitted,

/s/

Steven J. Kramer
Guy Mazza
Brian Ossias
Brandon F. Goodrich
Alan Michaels

Consolidated Edison Company of New York, Inc.
Electric Operating Income, Rate Base & Rate of Return
For the Rate Year Ending December 30, 2014
(\$000's)

	<u>Company</u>				Adj. No.	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
<u>Operating Revenues</u>									
Sales Revenues	\$8,027,077		\$17,099	\$8,044,176	1	\$31,852	\$8,076,028	(\$146,359)	\$7,929,669
Other Operating Revenues	223,152	(\$9,209)	(38,364)	175,579	2	9,814	185,393	(563)	184,830
Total Operating Revenues	8,250,229	(9,209)	(21,265)	8,219,755		41,666	8,261,421	(146,922)	8,114,499
<u>Operating Expense</u>									
Fuel	2,068,032		(653)	2,067,379	3	653	2,068,032		2,068,032
Operation & Maintenance Expenses	2,236,145	9,227	20,750	2,266,122	4	(111,983)	2,154,139	(1,317)	2,152,822
Depreciation Expense	844,411	17,268	(1,190)	860,489	5	(104,685)	755,804		755,804
Taxes Other Than Income Taxes	1,580,753	(1,394)	(490)	1,578,869	6	(2,234)	1,576,635	(4,244)	1,572,391
Total Operating Expenses	6,729,341	25,101	18,417	6,772,859		(218,249)	6,554,610	(5,562)	6,549,048
Operating Income Before Income Taxes	1,520,888	(34,310)	(39,682)	1,446,896		259,915	1,706,811	(141,361)	1,565,450
New York State Income Tax	75,200	(725)	(3,144)	71,331	7	18,181	89,512	(10,037)	79,475
Federal Income Tax	327,738	(20,181)	(14,606)	292,951	8	73,058	366,009	(45,963)	320,045
Electric Operating Income	\$1,117,950	(\$13,404)	(\$21,932)	\$1,082,614		\$168,676	\$1,251,291	(\$85,360)	\$1,165,930
Rate Base	\$17,382,582	\$77,467	\$120,299	\$17,580,348	9	(\$328,822)	\$17,251,526		\$17,251,526
Rate of Return	6.43%			6.16%			7.25%		6.76%

Consolidated Edison Company of New York, Inc.
Other Electric Operating Revenues
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 2	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Miscellaneous Service Revenues	\$14,458			\$14,458			\$14,458		\$14,458
Rent from Electric Property	18,232			18,232			18,232		18,232
Interdepartmental Rents	16,931	(\$166)	(997)	15,768			15,768		15,768
Other Electric Revenues									
Transmission of Energy	8,765			8,765			8,765		8,765
Transmission Service Revenues	15,000		(8,000)	7,000			7,000		7,000
Maint. of Interconnection Facilities	2,353			2,353			2,353		2,353
Excess Distribution Facilities	3,113		199	3,312			3,312		3,312
Late Payment Charges	30,904			30,904	a	\$140	31,044	(\$563)	30,481
The Learning Center Services	750			750			750		750
KeySpan Settlement Facilities Fee	726			726			726		726
TCC Credits	120,000		(30,000)	90,000			90,000		90,000
POR Discount	20,853		3,360	24,213	b	5,848	30,061		30,061
KeySpan Inside Del Credit	(692)			(692)			(692)		(692)
ESCO Funding Fees	490			490			490		490
ESCO Internet Daily / Weekly	35			35			35		35
Transmission Netting Credit Adjustment	(259)			(259)			(259)		(259)
Substation Operation Services	56			56			56		56
AreaWide Contract Fees	87			87			87		87
Dishonored Check Fees	39			39			39		39
Reserve for "05-'08" Capital Expenditures	3,189			3,189			3,189		3,189
Sithe Agreement	1,698			1,698			1,698		1,698
Total Other Electric Revenues	207,107	0	(34,441)	172,666		5,988	178,654	(563)	178,091
Amortization of Regulatory Deferrals:									
Amortization of T&D Deferral	(19,445)			(19,445)			(19,445)		(19,445)
Property Tax Deferrals	86,115	1,310	721	88,146			88,146		88,146
World Trade Center	21,742	(417)	(3,967)	17,358	c	154	17,512		17,512
Interest Rate True-Up (Auction Rate / LT Debt)	24,383	487		24,870			24,870		24,870
Carrying Charges (Net Plant Reconciliation)	8,240	(6,020)	1,258	3,478	d	1,996	5,474		5,474
Customer Cash Flow Benefits Bonus Depr	13,559	(1,140)		12,419			12,419		12,419
Customer Cash Flow Benefits Repair Allowance	4,425			4,425			4,425		4,425
Interference	3,915	(1,339)		2,576			2,576		2,576
Former Employee / Contractor Settlements	2,150	(103)		2,047			2,047		2,047
Power for Jobs Tax Credit	3,551	(55)		3,496			3,496		3,496
Verizon Joint Use Poles	3,134	547	1,333	5,014			5,014		5,014
Electric Service Reliability Rate Adjustment	1,734			1,734			1,734		1,734
Property Tax Refunds	1,549	464	936	2,949			2,949		2,949
Preferred Stock Redemption Savings	1,680			1,680			1,680		1,680
DC Service Incentive	308			308			308		308
Electric - BIR Refunds	104	8		112			112		112
Carrying Cost - SIR Deferred Balances	1,225	2		1,227			1,227		1,227
Energy Efficiency Program	398			398			398		398
Targeted DSM	195			195			195		195
Furnace Dock Road Dam	50			50			50		50
Sale of Property - John Street	1,833	(340)		1,493	e	304	1,797		1,797
Case 09-E-0428 Deferral	872			872			872		872
Major Storm Charges	(26,100)			(26,100)			(26,100)		(26,100)
Pensions / OPEBS	(28,657)	468	400	(27,789)			(27,789)		(27,789)
Medicare Part D	(5,140)		(2,180)	(7,320)	f	(2,039)	(9,359)		(9,359)
Site Investigation and Remediation Program Costs	(38,486)		2,211	(36,275)			(36,275)		(36,275)
263a Deferred Taxes	(1,147)		42	(1,105)			(1,105)		(1,105)
ERRP Spare Parts Maintenance	(7,719)			(7,719)			(7,719)		(7,719)
Nuclear Fuel Litigation	(3,411)			(3,411)	g	3,411	0		0
TSC Revenue	(3,198)			(3,198)			(3,198)		(3,198)
Interest - TSC Revenue	(80)	(47)		(127)			(127)		(127)
Sale of SO2 Allowances	(2,203)	(16)		(2,219)			(2,219)		(2,219)
Reactive Power	(1,377)	177		(1,200)			(1,200)		(1,200)
Emergency Demand Response / Demand Reduction Prog.	(91)			(91)			(91)		(91)
Gain on Sale of First Avenue Properties	(17)			(17)			(17)		(17)
Superstorm Sandy Restoration	(77,667)	(3,002)	(699)	(81,368)			(81,368)		(81,368)
Smart Grid Demonstration Grant	0		(3,280)	(3,280)			(3,280)		(3,280)
Reserve for "05-'08" Capital Expenditures	0	(816)	1,088	272			272		272
Brownfield Tax Credits	0	789	(789)	0			0		0
Total Amortization of Regulatory Deferrals	(33,576)	(9,043)	(2,926)	(45,545)		3,826	(41,719)	0	(41,719)
Total Other Electric Operating Revenues	\$223,152	(\$9,209)	(\$38,364)	\$175,579		\$9,814	\$185,393	(\$563)	\$184,830

Consolidated Edison Company of New York, Inc.
Operation & Maintenance Expenses
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 4	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Load Dispatching & PJM Wheeling	\$14,849			\$14,849			\$14,849	\$14,849	
Other Fuel Charges	1,909		(\$1,232)	677			677	677	
Other Production Charges	2,898			2,898			2,898	2,898	
Water	1,037		(79)	958			958	958	
Water Chemicals	410			410			410	410	
AMR Savings	(1,247)	(\$364)	364	(1,247)			(1,247)	(1,247)	
Austerity Adjustment	13,200			13,200	a	(\$13,200)	0	0	
A&G Expense Capitalized	(34,649)	942	4,372	(29,335)	b	1,198	(28,137)	(28,137)	
Asbestos Removal	103			103			103	103	
Bank Collection Fees	655			655			655	655	
Bargaining Unit Contract Cost	404			404			404	404	
Boiler Cleaning	844			844			844	844	
Building Service	9,264			9,264	c	(1,096)	8,168	8,168	
Collection Agency Fees	2,154			2,154			2,154	2,154	
Communication - Telephone	6,369			6,369			6,369	6,369	
Company Labor	612,794	(150)	1,642	614,286	d	(22,303)	591,983	591,983	
Company Labor - Fringe Benefit Adjustment	6,937	(108)	1,182	8,011	e	(4,482)	3,529	3,529	
Consultants	10,306	(33)		10,273	f	(1,704)	8,569	8,569	
Contract Labor	1,648		1,359	3,007	g	1,023	4,030	4,030	
Corporate Fiscal Expense	4,432	(1,286)	(104)	3,042			3,042	3,042	
Corrective Maintenance	3,459			3,459			3,459	3,459	
Disposal of Obsolete M&S	875			875			875	875	
Demand Side Management	31,208			31,208			31,208	31,208	
Duplicate Misc. Charges	(17,521)			(17,521)			(17,521)	(17,521)	
EDP Equipment Rentals & Maintenance	5,461			5,461			5,461	5,461	
Electric Operation	98,849	9,474	(954)	107,369	h	(3,325)	104,044	104,044	
Electricity & Gas Used	3,175			3,175			3,175	3,175	
Employee Pensions	393,314	(8,549)	(1,190)	383,575	i	(9,294)	374,281	374,281	
Employee Welfare Expense	154,466	(52)	1,675	156,089	j	(15,830)	140,259	140,259	
Environmental Affairs	3,215			3,215			3,215	3,215	
Environmental Programs	935			935			935	935	
ERRP Major Maintenance	7,159			7,159			7,159	7,159	
Facilities Maintenance	1,628			1,628			1,628	1,628	
Financial Services	11,995			11,995			11,995	11,995	
Gas Turbines	270			270			270	270	
Information Resources	37,303			37,303			37,303	37,303	
Informational Advertising	6,669		(88)	6,581	k	29	6,610	(\$117)	
Injuries & Damages Reserve	45,908			45,908			45,908	45,908	
Institutional Dues & Subscriptions	1,776			1,776	l	(325)	1,451	1,451	
Insurance Premiums	35,028	(67)	(208)	34,753	m	803	35,556	35,556	
Interference	83,564		17,040	100,604	n	(31,620)	68,984	68,984	
Management Audit Savings	(16,700)	3,900	(250)	(13,050)			(13,050)	(13,050)	
Manhour Expense	1,854			1,854			1,854	1,854	
Marshall's Fees	1,922			1,922			1,922	1,922	
Materials & Supplies	2,543			2,543			2,543	2,543	
Outreach And Education	2,983	303	332	3,618			3,618	3,618	
Outside Legal Services	954			954			954	954	
Paving	23			23			23	23	
Plant Component Upgrade	305			305			305	305	
Postage	15,204	(24)		15,180			15,180	15,180	
Preventive Maintenance	3,689			3,689			3,689	3,689	
Real Estate Expense	2,684			2,684			2,684	2,684	
Regulatory Commission Expense	31,130	(632)		30,498	o	(361)	30,137	30,137	
Renewable Portfolio Charges	125,266			125,266			125,266	125,266	
Rents - General	49,021			49,021			49,021	49,021	
Rents - ERRP	71,890	7,179	(595)	78,474	p	(4,559)	73,915	73,915	
Rents - Interdepartmental	10,512	(28)	140	10,624			10,624	10,624	
Research & Development	10,989			10,989			10,989	10,989	
Scheduled Overhauls	1,158			1,158			1,158	1,158	
Security	1,605		108	1,713			1,713	1,713	
Shared Services	(5,118)	10		(5,108)			(5,108)	(5,108)	
Smart Grid	1,815	(86)	(1,729)	0			0	0	
System & Transmission Operations	20,964			20,964			20,964	20,964	
Storm Reserve	21,427			21,427			21,427	21,427	
Substation Operation	31,030			31,030			31,030	31,030	
System Benefit Charge	180,414		34	180,448			180,448	180,448	
Trenching	28			28			28	28	
Uncollectible Expense - Customer	75,568	806	(1,070)	75,304	q	(1,611)	73,693	(1,200)	
Uncollectible Expense - SUNDRY	445			445			445	445	
All Other	29,487	300		29,787	r	(5,326)	24,461	24,461	
Escalation Adjustment		(2,308)		(2,308)			(2,308)	(2,308)	
Total O & M Expenses	\$2,236,145	\$9,227	\$20,750	\$2,266,122		(\$111,983)	\$2,154,139	(\$1,317)	\$2,152,822

Consolidated Edison Company of New York, Inc.
Taxes Other Than Income Taxes
For the Rate Year Ending December 30, 2014
(\$000's)

	Company			Adj. No. 6	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update					
Property Taxes								
New York City	\$1,138,894	\$4,665	(\$268)	\$1,143,291	a	\$276	\$1,143,567	\$1,143,567
Upstate & Westchester	118,569	(2,451)	(563)	115,555			115,555	115,555
Total Property Taxes	<u>1,257,463</u>	<u>2,214</u>	<u>(831)</u>	<u>1,258,846</u>		<u>276</u>	<u>1,259,122</u>	<u>1,259,122</u>
Revenue Taxes	236,145		496	236,641			236,641	(\$4,244)
Payroll Taxes	60,366		300	60,666	b	(2,249)	58,417	58,417
Subsidiary Capital Tax	6,905		(455)	6,450	c	(261)	6,189	6,189
Receipts Tax	16,320			16,320			16,320	16,320
Brownfield Tax Credits	0	(1,600)		(1,600)			(1,600)	(1,600)
All Other Taxes	3,554	(2,008)		1,546			1,546	1,546
Total Taxes Other Than Income Taxes	<u>\$1,580,753</u>	<u>(\$1,394)</u>	<u>(\$490)</u>	<u>\$1,578,869</u>		<u>(\$2,234)</u>	<u>\$1,576,635</u>	<u>(\$4,244)</u>
								<u>\$1,572,391</u>

Consolidated Edison Company of New York, Inc.
New York State Income Tax
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 7	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Operating Income Before Income Taxes	\$1,520,888	(\$34,310)	(\$39,682)	\$1,446,896		\$259,915	\$1,706,811	(\$141,361)	\$1,565,450
Flow Through Items:									
Non-Taxable Income and Additional Deductions									
Interest Expense	439,973	(1,561)	4,599	443,011		3,843	446,854		446,854
Amortization of Preferred Stock Acquisition Costs	(771)			(771)			(771)		(771)
Total Flow Through Deductions	439,202	(1,561)	4,599	442,240		3,843	446,083	0	446,083
Normalized Items:									
Additional Income and Unallowable Deductions									
Book Depreciation	844,411	17,268	(1,190)	860,489		(104,685)	755,804	0	755,804
Contributions in Aid of Construction	1,560			1,560			1,560		1,560
Capitalized Interest	1,026	1,597		2,623			2,623		2,623
Pensions / OPEB current expense	393,314	(8,549)	(1,190)	383,575		(9,294)	374,281		374,281
Total Additions	1,240,311	10,316	(2,380)	1,248,247		(113,979)	1,134,268	0	1,134,268
Non-Taxable Income and Additional Deductions									
NYS Depreciation	960,723	(30,383)	10,018	940,358		(114,402)	825,956	0	825,956
263A Capitalized Overheads	83,953			83,953			83,953		83,953
Removal Costs	154,063	(13,174)		140,889			140,889		140,889
Repair Allowance	84,067	72,181	1,692	157,940			157,940		157,940
Computer Software	19,459			19,459			19,459		19,459
Deferred Fuel Costs	(12,107)			(12,107)			(12,107)		(12,107)
Pensions / OPEB expense - Funding	575,140	(12,592)	11,018	573,566		(199,285)	374,281		374,281
Westchester Property Tax adjustment	2,734			2,734			2,734		2,734
Property Tax Deferrals	86,115	1,310	721	88,146			88,146		88,146
World Trade Center	21,742	(417)	(3,967)	17,358		154	17,512		17,512
Interest Rate True-Up (Auction Rate / Long Term Debt)	24,383	487		24,870			24,870		24,870
Carrying Charges (Net Plant Reconciliation)	8,240	(6,020)	1,258	3,478		1,996	5,474		5,474
Customer Cash Flow Benefits Bonus Depreciation	13,559	(1,140)		12,419			12,419		12,419
Customer Cash Flow Benefits Repair Allowance	4,425			4,425			4,425		4,425
Interference	3,915	(1,339)		2,576			2,576		2,576
Former Employee / Contractor Settlements	2,150	(103)		2,047			2,047		2,047
Power For Jobs Tax Credit	3,551	(55)		3,496			3,496		3,496
Verizon Joint Use Poles	3,134	547	1,333	5,014			5,014		5,014
Electric Service Reliability Rate Adjustment	1,734			1,734			1,734		1,734
Property Tax Refunds	1,549	464	936	2,949			2,949		2,949
Preferred Stock Redemption Savings	1,680			1,680			1,680		1,680
DC Service Incentive	308			308			308		308
Electric - BIR Refunds	104	8		112			112		112
Carrying Cost - SIR Deferred Balances	1,225	2		1,227			1,227		1,227
Energy Efficiency Program	398			398			398		398
Targeted DSM	195			195			195		195
Furnace Dock Road Dam	50			50			50		50
Sale of Property - John Street	1,833	(340)		1,493		304	1,797		1,797
Case 09-E-0428 Deferral	872			872			872		872
T&D Deferral from Case 07-E-0523	(19,445)			(19,445)			(19,445)		(19,445)
Major Storm Charges	(26,100)			(26,100)			(26,100)		(26,100)
Pensions / OPEBS	(28,657)	468	400	(27,789)			(27,789)		(27,789)
Medicare Part D	(5,140)		(2,180)	(7,320)		(2,039)	(9,359)		(9,359)
Site Investigation and Remediation	(38,486)		2,211	(36,275)			(36,275)		(36,275)
263a Deferred Taxes	(1,147)		42	(1,105)			(1,105)		(1,105)
ERRRP Spare Parts Maintenance	(7,719)			(7,719)			(7,719)		(7,719)
Nuclear Fuel Litigation	(3,411)			(3,411)		3,411	0		0
TSC Revenue (prior to April 2010)	(3,198)			(3,198)			(3,198)		(3,198)
Interest - TSC Revenue	(80)	(47)		(127)			(127)		(127)
Sale of SO2 Allowances	(2,203)	(16)		(2,219)			(2,219)		(2,219)
Reactive Power	(1,377)	177		(1,200)			(1,200)		(1,200)
Emergency Demand Response / Demand Reduction Prog.	(91)			(91)			(91)		(91)
Gain on Sale of First Avenue Properties	(17)			(17)			(17)		(17)
Superstorm Sandy Restoration	(77,667)	(3,002)	(699)	(81,368)			(81,368)		(81,368)
Reserve for "05-'08" Capital Expenditures		(816)	1,088	272			272		272
Total Deductions	1,834,456	6,200	23,871	1,864,527		(309,861)	1,554,666	0	1,554,666
Total Adjustments to Income	(1,033,347)	5,677	(30,850)	(1,058,520)		192,039	(866,481)	0	(866,481)
NYS Taxable Income	487,541	(28,633)	(70,532)	388,376		451,954	840,330	(141,361)	698,969
Tax Computation									
Current NYS Income Tax Payable @ 7.1%	34,615	(2,033)	(5,008)	27,575		32,089	59,663	(10,037)	49,627
Deferred NYS Income Tax @ 7.1%	42,184	(292)	1,864	43,756		(13,908)	29,848	0	29,848
Amortization of Brownfield Tax Credits	(1,600)	1,600		0			0		0
Total New York State Income Tax	\$75,200	(\$725)	(\$3,144)	\$71,331		\$18,181	\$89,512	(\$10,037)	\$79,475

Consolidated Edison Company of New York, Inc.
Federal Income Tax
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 8	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Operating Income Before Income Taxes	\$1,520,888	(\$34,310)	(\$39,682)	\$1,446,896		\$259,915	\$1,706,811	(\$141,361)	\$1,565,450
New York State Income Tax	75,200	(725)	(3,144)	71,331		18,181	89,512	(10,037)	79,475
Operating Income Before Federal Income Tax	1,445,688	(33,585)	(36,538)	1,375,565		241,734	1,617,299	(131,324)	1,485,975
Flow Through Items:									
Add: Additional Income and Unallowable Deductions									
Book Depreciation	844,411	17,268	(1,190)	860,489		(104,685)	755,804	0	755,804
Amortization of Preferred Stock Acquisition Costs	771			771			771		771
Capitalized Interest	1,026	1,597		2,623			2,623		2,623
Total Additions	846,208	18,865	(1,190)	863,883		(104,685)	759,198	0	759,198
Deduct: Non-Taxable Income and Additional Deductions									
Interest expense	439,973	(1,561)	4,599	443,011		3,843	446,854	0	446,854
Statutory Depreciation - at current book rates	420,548	15,518	(2,418)	433,648		(21,201)	412,447	0	412,447
Statutory Depreciation - change at proposed book rates	14,238	9,266	68	23,572		(23,572)	0	0	0
Statutory Depreciation - change with reserve deficiency	12,916			12,916		(12,916)	0	0	0
Statutory Depreciation - Smart Grid Depreciation	(562)			(562)		562	0	0	0
Removal Costs	154,063	(13,174)		140,889			140,889		140,889
Medicare Part D Subsidy - Post Employment Benefits	0			0			0		0
Westchester Property Tax adjustment	2,734			2,734			2,734		2,734
Total Deductions	1,043,910	10,049	2,249	1,056,208		(53,284)	1,002,924	0	1,002,924
Normalized Items:									
Add: Additional Income and Unallowable Deductions									
Contributions in Aid of Construction	1,560			1,560			1,560		1,560
Pensions / OPEB current expense	393,314	(8,549)	(1,190)	383,575		(9,294)	374,281		374,281
Deferred State Income Tax	42,184	(292)	1,864	43,756		(13,908)	29,848	0	29,848
Total Additions	437,058	(8,841)	674	428,891		(23,202)	405,689	0	405,689
Deduct: Non-Taxable Income and Additional Deductions									
Excess Depreciation - at current book rates	202,373	54,668	35,478	292,519		(4,542)	287,977	0	287,977
Excess Depreciation - change at proposed book rates	(14,238)	(9,266)	(68)	(23,572)		23,572	0	0	0
Excess Depreciation - change with reserve deficiency	(12,916)			(12,916)		12,916	0	0	0
Excess Depreciation - Smart Grid depreciation	562			562		(562)	0	0	0
263A Capitalized Overheads	83,953			83,953			83,953		83,953
Repair Allowance	84,067	72,181	1,692	157,940			157,940		157,940
Computer Software (capitalized net of amortization)	19,459			19,459			19,459		19,459
Deferred Fuel Costs	(12,107)			(12,107)			(12,107)		(12,107)
Pensions / OPEB expense - Funding	575,140	(12,592)	11,018	573,566		(199,285)	374,281		374,281
Property Tax Deferrals	86,115	1,310	721	88,146			88,146		88,146
World Trade Center	21,742	(417)	(3,967)	17,358		154	17,512		17,512
Interest Rate True-Up (Auction Rate / Long Term Debt)	24,383	487		24,870			24,870		24,870
Carrying Charges (Net Plant Reconciliation)	8,240	(6,020)	1,258	3,478		1,996	5,474		5,474
Customer Cash Flow Benefits Bonus Depreciation	13,559	(1,140)		12,419			12,419		12,419
Customer Cash Flow Benefits Repair Allowance	4,425			4,425			4,425		4,425
Interference	3,915	(1,339)		2,576			2,576		2,576
Former Employee / Contractor Settlements	2,150	(103)		2,047			2,047		2,047
Power For Jobs Tax Credit	3,551	(55)		3,496			3,496		3,496
Verizon Joint Use Poles	3,134	547	1,333	5,014			5,014		5,014
Electric Service Reliability Rate Adjustment	1,734			1,734			1,734		1,734
Property Tax Refunds	1,549	464	936	2,949			2,949		2,949
Preferred Stock Redemption Savings	1,680			1,680			1,680		1,680
DC Service Incentive	308			308			308		308
Electric - BIR Refunds	104	8		112			112		112
Carrying Cost - SIR Deferred Balances	1,225	2		1,227			1,227		1,227
Energy Efficiency Program	398			398			398		398
Targeted DSM	195			195			195		195
Furnace Dock Road Dam	50			50			50		50
Sale of Property - John Street	1,833	(340)		1,493		304	1,797		1,797
Case 09-E-0428 Deferral	872			872			872		872
T&D Deferral from Case 07-E-0523	(19,445)			(19,445)			(19,445)		(19,445)
Major Storm Charges	(26,100)			(26,100)			(26,100)		(26,100)
Pensions / OPEBS	(28,657)	468	400	(27,789)			(27,789)		(27,789)
Medicare Part D	(5,140)		(2,180)	(7,320)		(2,039)	(9,359)		(9,359)
Site Investigation and Remediation	(38,486)		2,211	(36,275)			(36,275)		(36,275)
263a Deferred Taxes	(1,147)		42	(1,105)			(1,105)		(1,105)
ERRP Spare Parts Maintenance	(7,719)			(7,719)			(7,719)		(7,719)
Nuclear Fuel Litigation	(3,411)			(3,411)		3,411	0		0
TSC Revenue (prior to April 2010)	(3,198)			(3,198)			(3,198)		(3,198)
Interest - TSC Revenue	(80)	(47)		(127)			(127)		(127)
Sale of SO2 Allowances	(2,203)	(16)		(2,219)			(2,219)		(2,219)
Reactive Power	(1,377)	177		(1,200)			(1,200)		(1,200)
Emergency Demand Response / Demand Reduction Prog.	(91)			(91)			(91)		(91)
Gain on Sale of First Avenue Properties	(17)			(17)			(17)		(17)
Superstorm Sandy Restoration	(77,667)	(3,002)	(699)	(81,368)			(81,368)		(81,368)
Reserve for "05-'08" Capital Expenditures	0	(816)	1,088	272			272		272
Total Deductions	892,717	95,159	49,263	1,037,139		(164,075)	873,064	0	873,064
Total Adjustments to Income	(653,361)	(95,184)	(52,028)	(800,573)		89,472	(711,101)	0	(711,101)
Federal Taxable Income	792,327	(128,769)	(88,566)	574,992		331,207	906,198	(131,324)	774,874
Tax Computation									
Current Federal Income Tax @ 35%	277,314	(45,069)	(30,998)	201,247		115,922	317,169	(45,963)	271,206
Deferred Federal Income Tax @ 35%	159,481	36,400	17,006	212,887		(49,306)	163,581	0	163,581
Amortization of Previously Deferred Federal Income Tax									
Depreciation - ADR / ACRS / MACRS - at current	(67,230)	(2,571)	(440)	(70,241)			(70,241)		(70,241)
Depreciation - ADR / ACRS / MACRS - at proposed		(7,049)	608	(6,441)		6,441	0		0
Depreciation - MACRS - SSCM	(12,656)			(12,656)			(12,656)		(12,656)
Loss on MACRS Retirements	(3,973)	(201)		(4,174)			(4,174)		(4,174)
Repair Allowance	(22,574)	(466)	(782)	(23,822)			(23,822)		(23,822)
Investment Tax Credit	(2,624)	(1,225)		(3,849)			(3,849)		(3,849)
Total Federal Income Tax	\$327,738	(\$20,181)	(\$14,606)	\$292,951		\$73,058	\$366,009	(\$45,963)	\$320,045

Consolidated Edison Company of New York, Inc.
Electric Rate Base
For the Rate Year Ending December 30, 2014
(\$000's)

	<u>Company</u>				Adj. No. 9	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated			
<u>Electric Utility Plant</u>							
Plant in Service	\$24,609,900	(\$8,600)	\$900	\$24,602,200	a	(\$30,992)	\$24,571,208
Smart Grid	(66,894)	(2,489)	69,383	0			0
Hudson Avenue Facility (from Steam Dept.)	91,650			91,650	b	(91,650)	0
Accumulated Reserve for Depreciation	(5,548,429)	(33,872)	33,672	(5,548,629)	c	47,262	(5,501,367)
Net Electric Utility Plant	19,086,227	(44,961)	103,955	19,145,221		(75,380)	19,069,841
Non-Interest Bearing CWIP	636,506	166,479	(54,338)	748,646	d	(60,580)	688,066
Working Capital	847,851	999	2,506	851,356	e	(13,878)	837,478
Unbilled Revenues	100,494			100,494			100,494
Deferred Fuel - Net of Tax	77,341			77,341	f	(8,408)	68,933
MTA Surtax - Net of Income Taxes	8,910			8,910			8,910
Unamortized Debt Discount/Premium/Expense	113,948	(539)		113,409			113,409
Unamortized Preferred Stock Expense	21,361			21,361			21,361
Early Retirement Benefit	1,587			1,587			1,587
Preliminary Survey & Investigation Costs	1,832			1,832			1,832
FIT Interest Refund	1,506			1,506			1,506
Mount Vernon Properties	1,638			1,638	g	(1,638)	0
Customer Advances for Construction	(710)	3		(706)			(706)
Amounts Billed in Advance of Construction	(5,205)	23		(5,182)			(5,182)
<u>Regulatory Deferrals</u>							
T&D Carrying Charge Deferral	41,079			41,079			41,079
Case 13-E-0030 Deferred Balances (from schedule 8)	27,433	75,068	(56,975)	45,526	h	(61,467)	(15,941)
<u>Accumulated Deferred Income Taxes</u>							
ADR / ACRS / MACRS Deductions	(2,440,522)	(84,874)	224,875	(2,300,521)	i. 1	(8,713)	(2,309,234)
Repair Allowance	(281,153)	(39,334)	(99,571)	(420,058)			(420,058)
Change of Accounting Section 263A/SSCM Deduction	(376,260)		601	(375,659)			(375,659)
Amortization of Computer Software	(70,540)			(70,540)			(70,540)
Excess Deferred FIT	(140,668)			(140,668)			(140,668)
Excess Deferred SIT	(722)			(722)			(722)
Vested Vacation	12,400	(55)		12,345			12,345
Prepaid Insurance Expenses	(2,947)	13		(2,934)			(2,934)
Unbilled Revenues	103,870			103,870			103,870
Contributions In Aid of Construction	26,583			26,583			26,583
Deferred State MTA	(18,529)			(18,529)			(18,529)
Capitalized Interest	19,411			19,411			19,411
Repair & Maintenance Allowance (IRS Audits)	2,969			2,969			2,969
Call Premium	(10,333)			(10,333)			(10,333)
Deferred S.I.T. -- Brownfield Credits	(4,495)	4,495		0			0
Deferred S.I.T. -- net of F.I.T.	(286,642)	150	(754)	(287,246)	i. 2	209	(287,037)
Rate Base before EBCap Adjustment	17,494,221	77,467	120,299	17,691,987		(229,855)	17,462,132
Earnings Base Capitalization Adjustment	(111,639)			(111,639)	j	(98,967)	(210,606)
Total Electric Rate Base	\$17,382,582	\$77,467	\$120,299	\$17,580,348		(\$328,822)	\$17,251,526

Consolidated Edison Company of New York, Inc.
Electric Working Capital Allowance
For the Rate Year Ending December 30, 2014
(\$000's)

	Company			Adj. No. 9	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update			
Materials & Supplies						
Liquid Fuel Inventory	\$35,889	(\$158)				\$35,731
Materials & Supplies, Excluding Fuel	103,585	(457)				103,128
Total Materials & Supplies	139,474	(615)	0		0	138,859
Prepayments						
Insurance	14,089		(111)	13,978	f. 1 (\$105)	13,873
Rents	17,746	(1)		17,745		17,745
Property Taxes	247,272	762	(56)	247,978	f. 2 (58)	247,920
PSC Assessment	8,499	(153)		8,346		8,346
Software & Maintenance Contracts	2,896	(13)		2,883		2,883
Interference	598	(3)		595		595
EPRI	321	(1)		320		320
Other	7,743	(34)		7,709		7,709
Total Prepayments	299,164	558	(167)	299,555		299,392
Cash Working Capital						
Total Operations & Maintenance Expenses	4,304,178	9,227	20,097	4,333,502		(111,330)
Less:						
Purchased Power Expenses	1,861,998		1,754	1,863,752		1,863,752
Gas Portion of Fuel	193,927			193,927		193,927
Recoverable Fuel Costs	12,107		(2,406)	9,701		9,701
System Benefit Charge (SBC)	180,414		34	180,448		180,448
Renewable Portfolio Charges (RPS)	125,266			125,266		125,266
Interdepartmental Rents	10,512	(28)	140	10,624		10,624
Uncollectibles	75,568	806	(1,070)	75,304		(1,611)
Subtotal	2,459,792	778	(1,548)	2,459,022		(1,611)
Cash Working Capital Subject to 1/8th Allowance	1,844,386	8,449	21,645	1,874,480		(109,719)
Cash Working Capital @ 1/8th	230,548	1,056	2,706	234,310	f. 3	(13,715)
Add: Cash Working Capital @ 1/12th on Recoverable Fuel Costs	1,010	0	(201)	810		810
Total Cash Working Capital	231,558	1,056	2,506	235,120		(13,715)
Total	670,196	999	2,339	673,533		(13,878)
Add: Working Capital Related to Purchased Power @ 1.64%	177,655	0	167	177,822		0
Total Working Capital	\$847,851	\$999	\$2,506	\$851,356		(\$13,878)

Consolidated Edison Company of New York, Inc.
Electric Regulatory Deferrals
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 9	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated			
Property Tax Deferrals	(\$139,937)	(\$2,129)	(\$1,171)	(\$143,237)			(\$143,237)
World Trade Center (WTC)	(35,331)	678	6,447	(28,206)	h. 1	(251)	(28,457)
Interest Rate True-Up (Auction Rate / LT Debt)	(39,622)	(791)		(40,413)			(40,413)
Carrying Charges (Net Plant Reconciliation)	(13,391)	9,784	(2,045)	(5,652)	h. 2	(3,243)	(8,895)
Customer Cash Flow Benefits Bonus Depr	(22,033)	1,853		(20,180)			(20,180)
Customer Cash Flow Benefits Repair Allowance	(7,190)	0		(7,190)			(7,190)
Interference	(6,361)	2,174		(4,187)			(4,187)
Former Employee / Contractor Settlements	(3,494)	167		(3,327)			(3,327)
Power for Jobs Tax Credit	(5,770)	88		(5,682)			(5,682)
Verizon Joint Use Poles	(5,093)	(889)	(2,166)	(8,148)			(8,148)
Electric Service Reliability Rate Adjustment	(2,817)	0		(2,817)			(2,817)
Property Tax Refunds	(2,517)	(754)	(1,522)	(4,793)	h. 3	(55,250)	(60,043)
Preferred Stock Redemption Savings	(2,731)	0		(2,731)			(2,731)
DC Service Incentive	(501)	0		(501)			(501)
Electric - BIR Refunds	(168)	(14)		(182)			(182)
Carrying Cost - SIR Deferred Balances	(1,990)	(3)		(1,993)			(1,993)
Energy Efficiency Program	(647)	0		(647)			(647)
Targeted DSM	(318)	1		(317)			(317)
Furnace Dock Road Dam	(81)	0		(81)			(81)
Sale of Property - John Street	(2,979)	553		(2,426)	h. 4	(494)	(2,920)
Case 09-E-0428 Deferral	(1,416)	0		(1,416)			(1,416)
Major Storm Charges	42,413	0		42,413			42,413
Medicare Part D	8,353	0	3,541	11,894	h. 5	3,314	15,208
SIR	112,571	60,615	(67,081)	106,105			106,105
263a Deferred Taxes	2,868	(1,004)	(69)	1,795			1,795
ERRP Spare Parts Maintenance	12,543	0		12,543			12,543
Nuclear Fuel Litigation	5,543	0		5,543	h. 6	(5,543)	0
TSC Revenue (prior to April 2010)	5,197	0		5,197			5,197
Interest - TSC Revenue	130	76		206			206
Sale of SO2 Allowances	3,580	26		3,606			3,606
Reactive Power	2,238	(287)		1,951			1,951
Emergency Demand Response / Demand Reduction Program	149	(1)		148			148
Gain on Sale of First Avenue Properties	27	0		27			27
Superstorm Sandy Restoration	126,208	4,880	1,135	132,223			132,223
Reserve for "05-'08" Capital Expenditures	0	1,326	(1,767)	(441)			(441)
Brownfield Tax Credits - Revenue Shortfall	0	(1,282)	1,282	0			0
Smart Grid	0	0	6,441	6,441			6,441
Total Regulatory Deferrals	\$27,433	\$75,068	(\$56,975)	\$45,526		(\$61,467)	(\$15,941)

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 30, 2014
(\$000's)

<u>Adj No.</u>	<u>Explanation</u>	<u>Amount</u>
1	<u>Sales Revenues - Schedule 1</u>	
	a. To reflect Staff's sales position on sales revenues in the rate year.	\$36,411
	b. To reduce ERRP rent revenues based on Staff's recommended cost of capital.	(4,559)
	Total Adjustment to Sales Revenues	<u>\$31,852</u>
2	<u>Other Operating Revenues - Schedule 2</u>	
	<u>a. Late Payment Charges</u>	
	Tracking Staff's sales revenue adjustment subject to Late Payment Charges.	\$140
	<u>b. POR Discount</u>	
	To reflect Staff's rate year forecast for POR discount revenues.	5,848
	<u>c. WTC Deferral</u>	
	To update and correct the Company's amortization of WTC related costs & recoveries.	154
	<u>d. Carrying Charges (T&D, Production, General Plant)</u>	
	To update and correct the amortization of the net plant deferral in the rate year.	1,996
	<u>e. Sale of Property - John Street</u>	
	To reflect Staff's proposed sharing of the gain on the sale of the John Street property.	304
	<u>f. Medicare Part D</u>	
	To update and correct the amortization of the Medicare Part D deferral in the rate year.	(2,039)
	<u>g. Nuclear Fuel Litigation</u>	
	To remove the Company's proposed recovery of Spent Nuclear Fuel Litigation costs.	3,411
	Total Adjustments to Other Operating Revenues	<u>\$9,814</u>
3	<u>Fuel - Schedule 1</u>	
	To reflect the rate year fuel costs based on Staff's sales forecast.	<u>\$653</u>
4	<u>Operations & Maintenance Expenses - Schedule 3</u>	
	<u>a. Austerity Adjustment</u>	
	To reflect the removal of the Company's proposed austerity adjustment.	(\$13,200)
	<u>b. A&G Expense Ins. Cap.</u>	
	To update and correct Staff's recommended rate year forecast.	1,198
	<u>c. Building Service</u>	
	To reflect Staff's recommended rate year forecast.	(1,096)
	<u>d. Company Labor</u>	
	1 To reflect Staff's recommended employee headcount in the rate year.	(\$15,307)
	2 To reflect Staff's adjustment to the Company's rate year labor program changes.	(6,103)
	3 To reflect Staff's adjustment to the Company's Gold Program.	(893)
	Total Adjustment to Company Labor	<u>(22,303)</u>

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 30, 2014
(\$000's)

<u>Adj No.</u>	<u>Explanation</u>	<u>Amount</u>
4	<u>Operations & Maintenance Expenses - Schedule 3</u>	
	<u>e. Company Labor - Fringe Benefit Adjustment</u>	
	To reflect the effect of Staff's labor program change adjustment.	(\$4,482)
	<u>f. Consultants</u>	
	To reflect the removal of expenses related to the PSC's investigative audit.	(1,704)
	<u>g. Contract Labor</u>	
	To reflect positions filled by outside contractors.	1,023
	<u>h. Electric Operation</u>	
	To reflect Staff's recommended rate year forecast.	(3,325)
	<u>i. Employee Pensions</u>	
	To reflect the removal of the Supplemental Retirement Income Plan expenses.	(9,294)
	<u>j. Employee Welfare Expense</u>	
	To reflect Staff's recommended forecast for health care costs in the rate year.	(15,830)
	<u>k. Informational Advertising</u>	
	Tracking Staff's sales revenue adjustment subject to informational advertising.	29
	<u>l. Institutional Dues & Subscriptions</u>	
	To remove employee benefit contributions from the Company's rate year forecast.	(325)
	<u>m. Insurance Premiums</u>	
	To reflect the Company's latest known property insurance premiums.	803
	<u>n. Interference</u>	
	To reflect Staff's recommended forecast for interference expense in the rate year.	(31,620)
	<u>o. Regulatory Commission Expense</u>	
	To reflect the removal of expenses related to the PSC's investigative audit.	(361)
	<u>p. Rents – ERRP</u>	
	To reduce ERRP rent expense based on Staff's cost of capital.	(4,559)
	<u>q. Uncollectible Expense - Customer</u>	
	1 To reflect Staff's recommended forecast of uncollectibles associated with POR.	(\$1,910)
	2 Tracking Staff's sales revenue adjustment subject to uncollectible accounts expense.	299
	Total Uncollectible Expense - Customer	(1,611)
	<u>r. Other</u>	
	1 To reflect Staff's recommended imputation of Project One Savings.	(5,307)
	2 To reflect Staff' non-labor adjustment to the Company's Gold Program.	(19)
	Total Adjustment to Other	(5,326)
	Total Adjustments to Operating and Maintenance Expense	<u><u>(\$111,983)</u></u>

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 30, 2014
(\$000's)

<u>Adj No.</u>	<u>Explanation</u>	<u>Amount</u>
5	<u>Depreciation Expense - Schedule 1</u> To reflect Staff's recommended depreciation rates and forecast of plant in service.	(\$104,685)
6	<u>Taxes Other Than Income Taxes - Schedule 4</u>	
	a. <u>Property Taxes</u> Tracking Staff's rate year forecast of 2013 and 2014 plant additions.	\$276
	b. <u>Payroll Taxes</u> Tracking Staff's rate year forecast of Company labor.	(2,249)
	c. <u>Subsidiary Capital Tax</u> To reflect the rate year forecast based on Staff's rate year common equity.	(261)
	Total Adjustments to Taxes Other Than Income Taxes	<u>(\$2,234)</u>
7	<u>New York State Income Tax - Schedule 5</u> To reflect Staff's SIT adjustments per Schedule 5	<u>\$18,181</u>
8	<u>Federal Income Tax - Schedule 6</u> To reflect Staff's FIT adjustments per Schedule 6	<u>\$73,058</u>
9	<u>Rate Base - Schedule 7</u>	
	<u>Utility Plant</u>	
	a. <u>Book Cost of Plant</u> To reflect Staff's forecast of rate year plant in service.	(\$30,992)
	b. <u>Hudson Avenue Facility</u> To remove the Company's proposed transfer from steam to electric service.	(91,650)
	c. <u>Accumulated Reserve for Depreciation</u> To reflect Staff's forecast of rate year accumulated reserve for depreciation.	<u>47,262</u>
	Total Adjustment to Net Utility Plant	(75,380)
	d. <u>Non-Interest Bearing CWIP</u>	
	1 To align the Company's rebuttal plant model with Staff's plant model.	(\$84,577)
	2 To reflect Staff's forecast of rate year NIBCWIP.	<u>23,997</u>
	Total Adjustment to Non-Interest Bearing CWIP	(60,580)
	e. <u>Working Capital - Schedule 9</u>	
	1 <u>Prepayments - Insurance</u> Tracking Staff's adjustments to rate year insurance expense.	(105)
	2 <u>Prepayments - Property Taxes</u> Tracking Staff's adjustments to rate year property tax expense.	(58)
	3 <u>Cash Working Capital</u> Tracking Staff's adjustments to O&M expense.	<u>(13,715)</u>
	Total Adjustment to Working Capital	(13,878)

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 30, 2014
(\$000's)

<u>Adj No.</u>	<u>Explanation</u>	<u>Amount</u>
f.	<u>Deferred Fuel</u> To reflect Staff's recommended rate year forecast of deferred fuel expense.	(\$8,408)
g.	<u>Mount Vernon Properties</u> To reflect the removal of the Mount Vernon properties from rate year rate base.	(1,638)
h.	<u>Regulatory Deferrals - Schedule 8</u>	
1	<u>WTC Deferral</u> Tracking the update and correction to the Company's forecast of deferred WTC expenses.	(251)
2	<u>Carrying Charges (Net Plant Reconciliation)</u> Tracking the update and correction to the Company's forecast of deferred net plant.	(3,243)
3	<u>Property Tax Refunds</u> To reflect Company's receipt of a NYC property tax refund on July 24, 2013.	(55,250)
4	<u>Sale of Property - John Street</u> Tracking Staff's adjustment to the allocation of the gain on the sale of John Street.	(494)
5	<u>Medicare Part D</u> Tracking the update and correction to the forecast of deferred Medicare Part D expenses.	3,314
6	<u>Nuclear Fuel Litigation</u> To reflect Staff's recommended removal of the Spent Nuclear Fuel litigation costs.	<u>(5,543)</u>
	Total Adjustment to Regulatory Deferrals	(61,467)
i.	<u>Accumulated Deferred Income Taxes</u>	
1	<u>ADR / ACRS / MACRS Deductions</u> Tracking Staff's adjustment to depreciation expense in the rate year.	(8,713)
2	<u>Deferred S.I.T.</u> Tracking Staff's SIT calculation.	<u>209</u>
	Total Adjustment to Accumulated Deferred Income Taxes	(8,504)
i.	<u>Earning Base Capitalization Adjustment</u> To remove the capitalization supporting SRIP fund from the EBCap adjustment.	(98,967)
	Total Adjustments to Rate Base	<u><u>(\$328,822)</u></u>

Consolidated Edison Company of New York, Inc.
Gas Operating Income, Rate Base & Rate of Return
For the Rate Year Ending December 30, 2014
(\$000's)

	<u>Company</u>				Adj. No.	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
<u>Operating Revenues</u>									
Sales Revenues	\$1,587,552		(\$27,819)	\$1,559,733	1	\$6,728	\$1,566,461	\$ (95,255)	\$1,471,206
Other Operating Revenues	27,417	(\$753)	5,274	31,938	2	(679)	31,259	(318)	30,941
Total Operating Revenues	1,614,969	(753)	(22,545)	1,591,671		6,049	1,597,720	(95,573)	1,502,147
<u>Operating Expense</u>									
Fuel and Purchased Gas	468,280		(13,965)	454,315			454,315		454,315
Operation & Maintenance Expenses	361,803	541	3,680	366,024	3	(23,018)	343,006	(857)	342,148
Depreciation Expense	141,939	(905)	274	141,308	4	(19,680)	121,628		121,628
Taxes Other Than Income Taxes	272,872	(3,559)	(1,014)	268,299	5	(1,037)	267,262	(3,668)	263,594
Total Operating Expenses	1,244,894	(3,923)	(11,025)	1,229,946		(43,735)	1,186,211	(4,526)	1,181,686
Operating Income Before Income Taxes	370,075	3,170	(11,520)	361,725		49,784	411,509	(91,048)	320,462
New York State Income Tax	19,761	404	(791)	19,375	6	3,587	22,961	(6,464)	16,497
Federal Income Tax	87,185	5,805	(3,038)	89,952	7	13,200	103,151	(29,604)	73,547
Gas Operating Income	\$263,129	(\$3,039)	(\$7,691)	\$252,399		\$32,997	\$285,396	(\$54,979)	\$230,417
Rate Base	\$3,611,523	(\$50,938)	(\$28,161)	\$3,532,423	8	(\$122,878)	\$3,409,546		\$3,409,546
Rate of Return	7.29%			7.15%			8.37%		6.76%

Consolidated Edison Company of New York, Inc.
Other Gas Operating Revenues
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 2	Staff Adjustments	As Adjusted by Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Misc. Service Revenue	\$1,122			\$1,122			\$1,122		\$1,122
Interdepartmental Rents	6,379	(\$56)	(\$142)	6,181			6,181		6,181
Rent From Gas Property									
New York Facilities	5,778			5,778			5,778		5,778
Real Estate Rents	366			366			366		366
Gas Tunnels - NYC				0			0		0
Trans. System Reinforce. Recoveries									
NYPA Variable and Maintenance	381			381			381		381
Late Payment Charges	5,298			5,298	a	\$22	5,320	(\$318)	5,002
Reimbursement To KeySpan-Governor's Island	(49)			(49)			(49)		(49)
POR Discount (Revenue from ESCO)	3,363		1,523	4,886	b	810	5,696		5,696
R&D Ventures	24			24			24		24
ESCO Funding Fees	487			487			487		487
Gas Reconnect Fess	130			130			130		130
R&D GAC Surcharge	1,960			1,960			1,960		1,960
All Other									
Learning Center Revenues	112			112			112		112
Miscellaneous	70			70			70		70
Subtotal Other Gas Operating Revenues	25,421	(56)	1,381	26,746		832	27,578	(318)	27,260
Regulatory Deferral Amortization									
Property Tax Deferrals	4,769	85		4,854			4,854		4,854
World Trade Center	6,509	(62)		6,447	c	(672)	5,775		5,775
Former Employee / Contractor Settlements	2,115	(139)		1,976			1,976		1,976
Interest Rate True-up	3,161	139		3,300			3,300		3,300
Bonus Depreciation interest	6,397	(368)		6,029			6,029		6,029
Repair Allowance Interest	2,131	0		2,131			2,131		2,131
Manufacturing Incentives	1,000	(8)		992			992		992
Interference	929	(845)		84			84		84
Sanford Avenue Gas Explosion	526	1		527			527		527
Penalties on Off-peak / interruptible customers	443	0		443			443		443
Pipeline integrity	314	408		722			722		722
Gain on Sale of First Avenue Properties	277	0		277			277		277
EEPS	218	0		218			218		218
Carrying Cost - SIR Deferred Balances	302	6		308			308		308
Unauthorized Use Charge - Divested Stations	167	0		167			167		167
Property Tax Refund	110	(9)		101			101		101
Oil to Gas Conversion	47	0		47			47		47
Preferred Stock Redemption Savings	318	0		318			318		318
Case 09-G-0795 Deferral	493	0		493			493		493
Pensions / OPEBS	(18,923)	67	187	(18,669)			(18,669)		(18,669)
Medicare Part D	(1,531)	0	2,509	978	d	(839)	139		139
SIR	(7,204)	0	455	(6,749)			(6,749)		(6,749)
263a Deferred Taxes	(521)	0	742	221			221		221
Interest on deferred balances	(29)	36		7			7		7
Interest on deferred POR	(22)	(8)		(30)			(30)		(30)
Total Regulatory Deferrals	1,996	(697)	3,893	5,192		(1,511)	3,681	0	3,681
Total Other Gas Operating Revenues	\$27,417	(\$753)	\$5,274	\$31,938		(\$679)	\$31,259	(\$318)	\$30,941

Consolidated Edison Company of New York, Inc.
Operation & Maintenance Expenses
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 3	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Admin & General Expenses Capitalized	(\$8,442)	\$83	\$1,558	(\$6,801)	a	(\$1,879)	(\$8,680)	(\$8,680)	
AMR Savings	(274)	(80)	80	(274)			(274)	(274)	
Austerity	2,000			2,000	b	(2,000)	0	0	
Bank Collection Fees	144			144			144	144	
Bargaining Unit Contract Costs	66			66			66	66	
Building Services	1,558			1,558	c	(178)	1,380	1,380	
Collection Agency Fees	472			472			472	472	
Communications - Telephone	1,463			1,463			1,463	1,463	
Company Labor	117,328	763	173	118,264	d	(4,134)	114,130	114,130	
Company Labor - Fringe Benefit	1,021	(27)	125	1,119	e	(727)	392	392	
Consultants	2,883	(376)		2,507	f	(277)	2,230	2,230	
Contract Labor	6,139			6,139	g	211	6,350	6,350	
Corp Fiscal Expense	744	(210)	(17)	517			517	517	
Disposal of Obsolete M&S	30			30			30	30	
Duplicate Misc. Charges	(658)			(658)			(658)	(658)	
EDP Equipment Rentals & Maintenance	1,518			1,518			1,518	1,518	
Electric and Gas Used	885			885			885	885	
Employee Pension / OPEBs - Net	57,875	(1,259)	(177)	56,439	h	(1,259)	55,180	55,180	
Employee Welfare Expense - Net	24,904	(11)	250	25,143	i	(3,259)	21,884	21,884	
Environmental Affairs	654			654			654	654	
Financial Services	1,849			1,849			1,849	1,849	
Gas Efficiency Program/SBC	36,470			36,470			36,470	36,470	
Gas Leaks	9,545			9,545			9,545	9,545	
General Outreach and Education	226		68	294			294	294	
Informational Advertising	1,414		(131)	1,283	j	5	1,288	(\$76) 1,212	
Information Resources	7,015			7,015			7,015	7,015	
Injuries and Damages	9,449			9,449			9,449	9,449	
Institutional Dues & Subscriptions	717			717	k	(131)	586	586	
Insurance Premiums	5,916	(11)	(256)	5,649	l	56	5,705	5,705	
Interference	18,798		3,608	22,406	m	(6,660)	15,746	15,746	
Management Audit Savings	0	0	(55)	(55)			(55)	(55)	
Manhour Expense	10,314			10,314			10,314	10,314	
Marshall's Fees	422			422			422	422	
Materials and Supplies	1,547			1,547			1,547	1,547	
New York Facilities	6,394			6,394			6,394	6,394	
Outside Legal Services	146			146			146	146	
Paving	1,040			1,040			1,040	1,040	
Postage	3,327	(7)		3,320			3,320	3,320	
Real Estate Expenses	403			403			403	403	
Regulatory Commission Expenses	7,456	(122)		7,334	n	(59)	7,275	7,275	
Rents	885			885			885	885	
Rents - Interdepartmental	51		(47)	4			4	4	
Research and Development	3,398			3,398			3,398	3,398	
Security	231		18	249			249	249	
Shared Services	(1,704)	3		(1,701)			(1,701)	(1,701)	
Trenching	1,081			1,081			1,081	1,081	
Uncollectibles	13,459	119	(1,767)	11,811	o	1,499	13,310	(781) 12,529	
Uncollectibles - Sundry	73			73			73	73	
Other	11,570	2,126	250	13,946	p	(4,227)	9,719	9,719	
Escalation Adjustment		(450)		(450)			(450)	(450)	
Total O & M Expenses	\$361,803	\$541	\$3,680	\$366,024		(\$23,018)	\$343,006	(\$857)	\$342,148

Consolidated Edison Company of New York, Inc.
Taxes Other Than Income Taxes
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 5	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Property Taxes									
New York City	\$157,987	(\$3,110)	(\$12)	\$154,865	a	(\$663)	\$154,202		\$154,202
Upstate and Westchester	48,337	(512)		47,825			47,825		47,825
Total Property Taxes	<u>206,324</u>	<u>(3,622)</u>	<u>(12)</u>	<u>202,690</u>		<u>(663)</u>	<u>202,027</u>		<u>202,027</u>
Revenue Taxes	55,114		(975)	54,139			54,139	(3,668)	50,471
Payroll Taxes	9,100	65	50	9,215	b	(331)	8,884		8,884
Subsidiary Capital Tax	1,126		(74)	1,052	c	(43)	1,009		1,009
Sales & Compensating Use Tax	368	(1)		367			367		367
Corporate Franchise Tax	22			22			22		22
Receipts Tax	490			490			490		490
All Other Taxes	<u>273</u>	<u>(1)</u>		<u>272</u>			<u>272</u>		<u>272</u>
Subtotal	<u>272,817</u>	<u>(3,559)</u>	<u>(1,011)</u>	<u>268,247</u>		<u>(1,037)</u>	<u>267,210</u>	<u>(3,668)</u>	<u>263,542</u>
Low Income discount	55		(3)	52			52		52
Total Taxes Other Than Income Taxes	<u><u>\$272,872</u></u>	<u><u>(\$3,559)</u></u>	<u><u>(\$1,014)</u></u>	<u><u>\$268,299</u></u>		<u><u>(\$1,037)</u></u>	<u><u>\$267,262</u></u>	<u><u>(\$3,668)</u></u>	<u><u>\$263,594</u></u>

Consolidated Edison Company of New York, Inc.
New York State Income Tax
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 6	Staff Adjustments	As Adjusted By Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Operating Income Before Income Taxes	\$370,075	\$3,170	(\$11,520)	\$361,725		\$49,784	\$411,509	(\$91,048)	\$320,462
Flow Through Items:									
Deduct: Non-Taxable Income and Additional Deductions:									
Interest Expense	91,892	(2,519)	(386)	88,987		(733)	88,254		88,254
Amortization of Preferred Stock Acquisition Cost	(146)			(146)			(146)		(146)
Total Deduction	91,746	(2,519)	(386)	88,841		(733)	88,108		88,108
Normalized Items:									
Add: Additional Income and Unallowable Deductions									
Book Depreciation	141,939	(905)	274	141,308		(19,680)	121,628		121,628
Contributions in Aid of Construction	300			300			300		300
Capitalized Interest	201	245		446			446		446
Pension and OPEB Expenses	57,875	(1,259)	(177)	56,439		(1,259)	55,180		55,180
Total Additions	200,315	(1,919)	97	198,493		(20,939)	177,554		177,554
Deduct: Non-Taxable Income and Additional Deductions									
NYS Depreciation	221,382	(3,468)	234	218,148			218,148		218,148
263A Capitalized Overhead	21,058			21,058			21,058		21,058
Repair Allowance	27,355	4,496	(80)	31,771			31,771		31,771
Removal Costs	18,184	(12,347)		5,837			5,837		5,837
Amortization of Computer Software	3,986			3,986			3,986		3,986
Westchester Property Tax Adjustment	162			162			162		162
Pension / OPEB Funding - Rate Year	118,390	(2,592)	2,268	118,066			118,066		118,066
Property Tax Deferral	4,769	85		4,854			4,854		4,854
World Trade Center Incident	6,509	(62)		6,447		(672)	5,775		5,775
Former Employee / Contractor Settlements	2,115	(139)		1,976			1,976		1,976
Interest Rate True-up (Auction Rate/Long Term Debt)	3,161	139		3,300			3,300		3,300
Bonus Depreciation Interest	6,397	(368)		6,029			6,029		6,029
Repair Allowance Interest	2,131			2,131			2,131		2,131
Manufacturing Incentives	1,000	(8)		992			992		992
Interference	929	(845)		84			84		84
Sanford Avenue Gas Explosion	526	1		527			527		527
Penalties on off-peak / Interruptible customers	443			443			443		443
Pipeline Integrity	314	408		722			722		722
Gain on Sale of First Avenue Properties	277			277			277		277
EEPS	218			218			218		218
Carrying Cost - SIR Deferred Balance	302	6		308			308		308
Unauthorized Use Change - Divested Stations	167			167			167		167
Property Tax Refunds	110	(9)		101			101		101
Oil To Gas Conversion	47			47			47		47
Preferred Stock Redemption Saving	318			318			318		318
Case 09-G-0795 Deferral	493			493			493		493
Pensions / OPEBS	(18,923)	67	187	(18,669)			(18,669)		(18,669)
Medicare Part D	(1,531)		2,509	978		(839)	139		139
SIR	(7,204)		455	(6,749)			(6,749)		(6,749)
263a Deferred Taxes	(521)		742	221			221		221
Interest on Deferred Balances	(29)	36		7			7		7
Interest on Deferred POR	(22)	(8)		(30)			(30)		(30)
Total Deductions	412,513	(14,608)	6,315	404,220		(1,511)	402,709		402,709
Total Adjustments to Income	(303,944)	15,208	(5,832)	(294,568)		(18,695)	(313,263)		(313,263)
Taxable Income - New York State	66,131	18,378	(17,352)	67,157		31,089	98,246	(91,048)	7,199
Tax Computation									
Current NYS Income Tax @ 7.1%	4,695	1,305	(1,232)	4,768		2,207	6,975	(6,464)	511
Deferred NYS Income Tax @ 7.1%	15,066	(901)	441	14,607		1,379	15,986		15,986
Total New York State Income Tax	\$19,761	\$404	(\$791)	\$19,375		\$3,587	\$22,961	(\$6,464)	\$16,497

Consolidated Edison Company of New York, Inc.
Gas Federal Income Tax
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 7	Staff Adjustments	As Adjusted by Staff	Revenue Increase / (Decrease)	Per Staff After Increase / (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Operating Income Before Income Taxes	\$370,075	\$3,170	(\$11,520)	\$361,725		\$49,784	\$411,509	(\$91,048)	\$320,462
NYS Income Tax	(19,761)	(404)	791	(19,375)		(3,587)	(22,961)	6,464	(16,497)
Operating Income Before Federal Income Tax	350,314	2,766	(10,729)	342,351		46,197	388,548	(84,584)	303,964
Flow Through Items:									
Add: Additional Income and Unallowable Deductions									
Book Depreciation	141,939	(905)	274	141,308		(19,680)	121,628		121,628
Amortization of Preferred Stock Acquisition Costs	146			146			146		146
Capitalized Interest	201	245		446			446		446
Total Additions	142,286	(660)	274	141,900		(19,680)	122,220	0	122,220
Deduct: Non-Taxable Income and Additional Deductions									
Interest Expense	91,892	(2,519)	(386)	88,987		(733)	88,254		88,254
Statutory Depreciation - at current book rates	80,963	(365)	(1,038)	79,560		(13,155)	66,405		66,405
Statutory Depreciation - change at proposed book rates	(1,929)	(267)	(19)	(2,215)		2,215	0		0
Statutory Depreciation - change with reserve deficiency	0			0			0		0
Removal Costs	18,184	(12,347)		5,837			5,837		5,837
Medicare Part D Subsidy - Post-Employment Benefits	0			0			0		0
Westchester Property Tax Adjustment	162			162			162		162
Total Deductions	189,272	(15,498)	(1,443)	172,331		(11,673)	160,658	0	160,658
Normalized Items:									
Add: Additional Income and Unallowable Deductions									
Contributions in Aid of Construction	300			300			300		300
Pension / OPEB Expenses - Rate Year	57,875	(1,259)	(177)	56,439		(1,259)	55,180		55,180
Deferred NYS Income Tax	15,066	(901)	441	14,607		1,379	15,986		15,986
Total Additions	73,241	(2,160)	264	71,346		120	71,466	0	71,466
Deduct: Non-Taxable Income and Additional Deductions									
Excess Depreciation - ADR / ACRS / MACRS	75,509	30,089	2,506	108,104		790	108,894		108,894
Excess Depreciation - change at proposed book rates	1,929		286	2,215		(2,215)	0		0
Excess Depreciation - change with reserve deficiency	0			0			0		0
263A Capitalized Overheads	21,058			21,058			21,058		21,058
Repair Allowance	27,355	4,496	(80)	31,771			31,771		31,771
Amortization of Computer Software	3,986			3,986			3,986		3,986
Pension / OPEB Funding - Rate Year	118,390	(2,592)	2,268	118,066			118,066		118,066
Property tax deferral	4,769	85		4,854			4,854		4,854
World Trade Center Incident	6,509	(62)		6,447		(672)	5,775		5,775
Former Employee / Contractor Settlement	2,115	(139)		1,976			1,976		1,976
Interest Rate True-up (Auction Rate/Long Term Debt)	3,161	139		3,300			3,300		3,300
Bonus Depreciation Interest	6,397	(368)		6,029			6,029		6,029
Repair Allowance Interest	2,131			2,131			2,131		2,131
Manufacturing Incentives	1,000	(8)		992			992		992
Interference	929	(845)		84			84		84
Sanford Avenue Gas Explosion	526	1		527			527		527
Penalties on off-peak / Interruptible customers	443			443			443		443
Pipeline Integrity	314	408		722			722		722
Gain on Sale of First Avenue Properties	277			277			277		277
EEPS	218			218			218		218
Carrying Cost - SIR Deferred Balance	302	6		308			308		308
Unauthorized Use Change - Divested Stations	167			167			167		167
Property Tax Refunds	110	(9)		101			101		101
Oil To Gas Conversion	47			47			47		47
Preferred Stock Redemption Savings	318			318			318		318
Case 09-G-0795 Deferral	493			493			493		493
Pensions / OPEBS	(18,923)	67	187	(18,669)			(18,669)		(18,669)
Medicare Part D	(1,531)		2,509	978		(839)	139		139
SIR	(7,204)		455	(6,749)			(6,749)		(6,749)
263a Deferred Taxes	(521)		742	221			221		221
Interest on Deferred balances	(29)	36		7			7		7
Interest on deferred POR	(22)	(8)		(30)			(30)		(30)
Total Deductions	250,223	31,296	8,873	290,392		(2,937)	287,455	0	287,455
Total Adjustments to Income	(223,968)	(18,618)	(6,892)	(249,478)		(4,950)	(254,427)	0	(254,427)
Federal Taxable Income	126,346	(15,852)	(17,621)	92,873		41,247	134,120	(84,584)	49,537
Tax Computation									
Current Federal Income Tax @ 35%	44,221	(5,548)	(6,167)	32,506		14,437	46,942	(29,604)	17,338
Deferred Federal Income Tax @ 35%	61,944	11,710	3,013	76,666		(1,070)	75,596	0	75,596
Amortization of Previously Deferred Federal Income Tax									
Depreciation - ADR / ACRS / MACRS - at current book rates	(12,787)	(410)	(66)	(13,263)			(13,263)		(13,263)
Depreciation - ADR / ACRS / MACRS - at proposed book rate	0	229	(62)	167		(167)	0		0
Depreciation - MACRS - SSCM	(2,556)	(44)		(2,600)			(2,600)		(2,600)
Loss on MACRS Retirements	(445)	(9)		(454)			(454)		(454)
Repair Allowance	(2,432)	(123)	244	(2,311)			(2,311)		(2,311)
Investment Tax Credit	(760)	1		(759)			(759)		(759)
Total Federal Income Tax	\$87,185	\$5,805	(\$3,038)	\$89,952		\$13,200	\$103,151	(\$29,604)	\$73,547

Consolidated Edison Company of New York, Inc.
Gas Rate Base
For the Rate Year Ending December 30, 2014
(\$000's)

	Company				Adj. No. 8	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated			
Utility Plant:							
Book Cost of Plant	\$5,450,300	\$21,200	\$400	\$5,471,900	a	(\$46,969)	\$5,424,931
Accumulated Reserve for Depreciation	(1,326,100)	(17,800)	(2,000)	(1,345,900)	b	9,019	(1,336,881)
Net Plant	4,124,200	3,400	(1,600)	4,126,000		(37,950)	4,088,050
Non-Interest Bearing CWIP	234,719	3,099	28,323	266,141	c	(65,118)	201,023
Gas Stored Underground - Non-Current	1,239			1,239			1,239
Preferred Stock Expense	4,046	0		4,046			4,046
Unamortized Debt Discount/Premium/Expense	21,586	(102)		21,484			21,484
Customer Advances for Construction	(1,878)	8		(1,870)			(1,870)
MTA Surtax - Net of Income Taxes	3,175			3,175			3,175
Working Capital	93,946	(726)	582	93,802	d	(3,192)	90,611
Accrual for Unbilled Revenues	55,910			55,910			55,910
Mount Vernon Properties (SIR Remediation)	337			337	e	(337)	0
Regulatory Deferrals							
Property Tax Deferrals	(7,750)	(138)		(7,888)			(7,888)
World Trade Center	(10,578)	102		(10,476)	f. 1	1,091	(9,385)
Former Employee / Contractor Settlements	(3,437)	225		(3,212)			(3,212)
Interest Rate True-Up (Auction Rate / Long Term Debt)	(5,136)	(227)		(5,363)			(5,363)
Bonus Depreciation Interest	(10,396)	599		(9,797)			(9,797)
Repair Allowance Interest	(3,462)	(0)		(3,462)			(3,462)
Manufacturing Incentives	(1,625)	14		(1,611)			(1,611)
Interference	(1,509)	1,372		(137)			(137)
Sanford Avenue Gas Explosion	(855)	(0)		(856)			(856)
Penalties on offpeak / interruptible customers	(720)	0		(720)			(720)
Pipeline Integrity	(510)	(664)		(1,173)			(1,173)
Gain on Sale of First Avenue Properties	(450)	0		(450)			(450)
EEPS	(354)	0		(354)			(354)
Carrying Cost - SIR Deferred Balances	(490)	(11)		(501)			(501)
Unauthorized Use Charge - Divested Stations	(271)	0		(271)			(271)
Property Tax Refunds	(178)	14		(164)			(164)
Oil To Gas Conversion	(77)	0		(77)			(77)
Preferred Stock Redemption Savings	(517)	0		(517)			(517)
Case 09-G-0795 Deferral	(801)	0		(801)			(801)
Medicare Part D	2,487	0	(4,076)	(1,589)	f. 2	1,364	(225)
SIR	32,417	0	(12,677)	19,740			19,740
263a Deferred Taxes	847	0	(1,206)	(359)			(359)
Interest on deferred balances	48	(59)		(11)			(11)
Interest on deferred POR	36	12		48			48
Sub-total Regulatory Deferrals	(13,282)	1,239	(17,959)	(30,002)		2,455	(27,547)
Accumulated Deferred Income Taxes							
ADR / ACRS / MACRS Deductions	(680,436)	(47,079)	(11,406)	(738,921)	g. 1	333	(738,588)
Repair Allowance	(80,437)	(11,347)	(8,469)	(100,253)			(100,253)
Change of Accounting Section 263A	(83,761)		(144)	(83,905)			(83,905)
Amortization of Computer Software	(13,816)			(13,816)			(13,816)
Prepaid Insurance Expenses	(465)	2		(463)			(463)
Deferred MTA	(3,429)			(3,429)			(3,429)
Vested Vacation	1,736	(8)		1,728			1,728
Unbilled Revenues	5,330			5,330			5,330
Contributions in Aid of Construction	2,135			2,135			2,135
Capitalized Interest	1,448			1,448			1,448
Call Premium	(998)			(998)			(998)
Excess Deferred FIT	(19,067)			(19,067)			(19,067)
Excess Deferred SIT	(571)			(571)			(571)
Excess Deferred SIT net of F.I.T	(25,814)	575	(17,488)	(42,727)	g. 2	(419)	(43,146)
Rate Base before EB Cap Adjustment	3,625,853	(50,938)	(28,161)	3,546,753		(104,228)	3,442,526
Earning Base Capitalization Adjustment	(14,330)			(14,330)	h	(18,650)	(32,980)
Total Rate Base	\$3,611,523	(\$50,938)	(\$28,161)	\$3,532,423		(\$122,878)	\$3,409,546

Consolidated Edison Company of New York, Inc.
Gas Working Capital Allowance
For the Rate Year Ending December 30, 2014
(\$000's)

	<u>Company</u>			Adj. No. 8	Staff Adjustments	As Adjusted by Staff
	As Initially Filed	Preliminary Update	Rebuttal Update			
<u>Materials & Supplies</u>						
Average Balance of Gas Stored Underground						
Average Balance of Materials & Supplies	\$12,042	(\$53)				\$11,989
Total Materials & Supplies	<u>12,042</u>	<u>(53)</u>	<u>-</u>			<u>11,989</u>
<u>Prepayments</u>						
Insurance	2,259		(102)	d. 1	11	2,168
Property Taxes	36,942	(691)	(3)	d. 2	(138)	36,110
PSC Assessment	1,895	(27)				1,868
Software & Maintenance Contracts	472	(2)				470
Interference	98	(0)				98
Other	1,261	(6)				1,255
Total Prepayment	<u>42,926</u>	<u>(725)</u>	<u>(105)</u>		<u>(127)</u>	<u>41,969</u>
<u>Cash Working Capital</u>						
Total Operations & Maintenance Expenses	361,803	541	3,680		(23,018)	343,006
Less:						
Purchased Gas Expenses						-
Interdepartmental Rents	51		(47)			4
Uncollectibles	13,459	119	(1,767)		1,499	13,310
SBC/RPS	<u>36,470</u>		<u>-</u>			<u>36,470</u>
Cash Working Capital Subject to 1/8th Allowance	311,822	422	5,494		(24,517)	293,221
Cash Working Capital @ 1/8th	<u>38,978</u>	<u>53</u>	<u>687</u>	d. 4	<u>(3,065)</u>	<u>36,653</u>
Total Working Capital	<u>\$93,946</u>	<u>(\$726)</u>	<u>\$582</u>		<u>(\$3,192)</u>	<u>\$90,611</u>

Consolidated Edison Company of New York, Inc.
Explanation of Staff Adjustments
For the Rate Year Ending December 31, 2014
(000's)

Adj.		<u>Amount</u>
No.	<u>Explanation</u>	
1	<u>Sales Revenues</u> To reflect Staff's forecast of rate year sales revenues.	<u>\$6,728</u>
2	<u>Other Gas Operating Revenue</u>	
	a. <u>Late Payment Charges</u> Tracking Staff's sales revenue adjustment subject to Late Payment Charges.	\$22
	b. <u>POR Discount</u> To reflect Staff's rate year forecast for POR discount revenues.	810
	c. <u>WTC Deferral</u> To update and correct the Company's amortization of WTC related costs & recoveries.	(672)
	d. <u>Medicare Part D</u> To update and correct the amortization of the Medicare Part D deferral in the rate year.	<u>(839)</u>
	Total Adjustment to Other Gas Operating Revenues	<u><u>(\$679)</u></u>
3	<u>Operation and Maintenance Expenses:</u>	
	a. <u>A&G Expenses Capitalized</u> To update and correct Staff's recommended rate year forecast.	(\$1,879)
	b. <u>Austerity Adjustment</u> To reflect the removal of the Company's proposed austerity adjustment.	(2,000)
	c. <u>Building Service</u> To reflect Staff's recommended rate year forecast.	(178)
	d. <u>Company Labor</u>	
	1 To reflect Staff's recommended employee headcount in the rate year.	(\$2,961)
	2 To reflect Staff's adjustment to the Company's rate year labor program changes.	(989)
	3 To reflect Staff's adjustment to the Company's Gold Program.	<u>(184)</u>
	Total Adjustment to Company Labor	(4,134)
	e. <u>Company Labor - Fringe Benefit</u> To reflect the effect of Staff's labor program change adjustment.	(727)
	f. <u>Consultant</u> To reflect the removal of expenses related to the PSC's investigative audit.	(277)
	g. <u>Contract Labor</u> To reflect positions filled by outside contractors.	211
	h. <u>Employee Pension/OPEB-Net</u> To reflect the removal of the Supplemental Retirement Income Plan expenses.	(1,259)
	i. <u>Employee Welfare Expense-Net</u> To reflect Staff's recommended forecast for health care costs in the rate year.	(3,259)
	j. <u>Informational Advertising</u> Tracking electric sales revenue adjustment subject to informational advertising.	5

Consolidated Edison Company of New York, Inc.
Explanation of Staff Adjustments
For the Rate Year Ending December 31, 2014
(000's)

Adj. No.	<u>Explanation</u>	<u>Amount</u>
	<u>O&M Expenses - Schedule 3 (Continue)</u>	
	<u>k. Institutional Dues and Subscriptions</u>	
	To remove employee benefit contributions from the Company's rate year forecast.	(\$131)
	<u>l. Insurance Premium</u>	
	To reflect the Company's latest known property insurance premiums.	56
	<u>m. Interference</u>	
	To reflect Staff's recommended forecast for interference expense in the rate year.	(6,660)
	<u>n. Regulatory Commission Expenses</u>	
	To reflect the removal of expenses related to the PSC's investigative audit.	(59)
	<u>o. Uncollectibles - Customer</u>	
	1 To reflect Staff adjustment to uncollectibles associated with POR.	(\$106)
	2 To correct the Company's forecast which contained an error understating rate year expense.	1,550
	3 To reflect the increase of uncollectible tracking Staff's Sales Revenue adjustment.	55
	Total Uncollectible Expense - Customer	1,499
	<u>p. Other O&M Expense</u>	
	1 To reflect Staff's adjustment to Gas operations expense.	(3,300)
	2 To reflect Staff non-labor adjustment to the Company's Gold Program.	(3)
	3 To update and correct the Company's rate year forecast for Platts Service.	(60)
	4 To reflect Staff's recommended imputation of Project One Savings.	(864)
	Total Other O&M Expense	(4,227)
	Total Adjustments to Operating and Maintenance Expenses	<u><u>(\$23,018)</u></u>
4	<u>Depreciation and Amortization Expense -Schedule 1</u>	
	To reflect Staff's recommended depreciation rates and forecast of plant in service.	<u><u>(\$19,680)</u></u>
5	<u>Taxes Other Than Income Tax- Schedule 4</u>	
	<u>a. NYC Property Taxes</u>	
	Tracking Staff's rate year forecast of 2013 and 2014 plant additions.	(\$663)
	<u>b. Payroll Taxes</u>	
	Tracking Staff's rate year forecast of Company labor.	(331)
	<u>c. Subsidiary Capital Tax</u>	
	To reflect the rate year forecast based on Staff's rate year common equity.	(43)
	Total Adjustments to Taxes Other Than Income Taxes	<u><u>(\$1,037)</u></u>
6	<u>New York State Income Tax - Schedule 5</u>	
	To reflect Staff's SIT adjustments per Schedule 5.	<u><u>\$3,587</u></u>
7	<u>Federal Income Tax (Schedule 6)</u>	
	To reflect Staff's FIT adjustments per Schedule 6.	<u><u>\$13,200</u></u>

Consolidated Edison Company of New York, Inc.
Explanation of Staff Adjustments
For the Rate Year Ending December 31, 2014
(000's)

<u>Adj.</u> <u>No.</u>	<u>Explanation</u>	<u>Amount</u>
8	Rate Base (Schedule 7)	
	a. Book Cost of Plant	
	To reflect Staff's forecast of rate year plant in service.	(\$46,969)
	b. Accumulated Reserve for Depreciation	
	To reflect Staff's forecast of rate year accumulated reserve for depreciation.	9,019
	Total Adjustment to Net Plant	(37,950)
	c. Non-Interest Bearing CWIP	
1	To align the Company's rebuttal plant model with Staff's plant model.	(\$11,458)
2	To reflect Staff's forecast of rate year NIBCWIP.	(53,660)
	Total Adjustment to Net Plant	(65,118)
	Working Capital (Schedule 8)	
	d. Prepayments	
1	Insurance	
	Tracking Staff's adjustments to rate year insurance expense.	11
2	Property Tax	
	Tracking Staff's adjustments to rate year property tax expense.	(138)
	Total Adjustment to Prepayments	(127)
	3 Cash Working Capital	
	Tracking Staff's adjustments to O&M expense.	(3,065)
	Total Adjustment to Working Capital	(3,192)
	e. Mount Vernon Properties (SIR Remediation)	
	To reflect the removal of the Mount Vernon properties from rate year rate base.	(\$337)
	f. Regulatory Deferrals (Net of Tax)	
1	WTC Deferral	
	Tracking the update and correction to the Company's forecast of deferred WTC expenses.	1,091
2	Medicare Part D	
	Tracking the update and correction to the forecast of deferred Medicare Part D expenses.	1,364
	Total Regulatory Deferrals (Net of Tax)	2,455
	g. Accumulated Deferred Income Taxes	
1	ADR/ACRS/MACRS Deductions	
a	Tracking Staff's adjustment to depreciation expense in the rate year.	249
b	To reflect Staff's removal of amortization of previously deferred FIT.	84
	Total Adjustment to ADR/ACR/MACRS Deductions	333
2	Deferred SIT	
	Tracking Staff's SIT calculation.	(419)
	Total Adjustments to Accumulated Deferred Income Taxes	(86)
	h. Earnings Base Capitalization Adjustment	
	To remove the capitalization supporting SRIP fund from the EBCap adjustment.	(18,650)
	Total Adjustments to Rate Base	(122,878)

Consolidated Edison Company of New York, Inc.
Steam Operating Income, Rate Base & Rate of Return
For the Rate Year Ending December 31, 2014
(\$000's)

	<u>Company</u>				Adj. No.	Staff Adjustments	As Adjusted By Staff	Revenue Increase/ (Decrease)	Per Staff After Increase/ (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
<u>Operating Revenues</u>									
Sales Revenues	\$654,781		(\$11,460)	\$643,321	1	\$1,356	\$644,677	(\$10,156)	\$634,521
Other Operating Revenues	90,593	\$8,103	(10,128)	88,568	2	(4,606)	83,962	(8)	83,954
Total Operating Revenues	<u>745,374</u>	<u>8,103</u>	<u>(21,588)</u>	<u>731,889</u>		<u>(3,250)</u>	<u>728,639</u>	<u>(10,164)</u>	<u>718,475</u>
<u>Operating Expense</u>									
Fuel	170,654		(1,698)	168,956	3	804	169,760		169,760
Other Fuel Charges	7,255		(5,266)	1,989			1,989		1,989
Operation & Maintenance Expense	207,519	(1,087)	1,467	207,899	4	(6,019)	201,880		201,880
Depreciation Expense	81,010	(1,431)	316	79,895	5	(3,051)	76,844		76,844
Taxes Other Than Income Taxes	123,935	8,753	3,262	135,950	6	(357)	135,593	(278)	135,315
Total Operating Expense	<u>590,373</u>	<u>6,235</u>	<u>(1,919)</u>	<u>594,689</u>		<u>(8,623)</u>	<u>586,066</u>	<u>(278)</u>	<u>585,788</u>
Operating Income Before Income Taxes	155,001	1,868	(19,669)	137,200		5,373	142,573	(9,886)	132,687
New York State Income Tax	8,391	(21)	(1,083)	7,287	7	97	7,384	(702)	6,682
Federal Income Tax	33,164	(438)	(6,578)	26,148	8	1,462	27,610	(3,214)	24,395
Utility Operating Income	<u>\$113,446</u>	<u>\$2,326</u>	<u>(\$12,007)</u>	<u>\$103,765</u>		<u>\$3,815</u>	<u>\$107,580</u>	<u>(\$5,970)</u>	<u>\$101,610</u>
Rate Base	<u>\$1,433,528</u>	<u>\$119,206</u>	<u>(\$99,741)</u>	<u>\$1,452,994</u>	9	<u>\$50,551</u>	<u>\$1,503,545</u>		<u>\$1,503,545</u>
Rate of Return	<u>7.91%</u>			<u>7.14%</u>			<u>7.16%</u>		<u>6.76%</u>

Consolidated Edison Company of New York, Inc.
Other Steam Operating Revenues
For the Rate Year Ending December 31, 2014
(\$000's)

	Company				Adj. No.	Staff Adjustments	As Adjusted By Staff	Revenue Increase/ (Decrease)	Per Staff After Increase/ (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Interdepartmental Rents:									
East River Repowering Project (ERRP)	\$71,890	\$7,179	(\$595)	\$78,474	a	(\$4,559)	\$73,915		\$73,915
Hudson Avenue Tunnel	2,292	(12)	55	2,335			2,335		2,335
Revenue Offset Re: 74th/59th Streets Transfer from Electric	5,000			5,000			5,000		5,000
Late Payment Charges	524			524	b	1	525	(\$8)	517
Special Services Repair Program	671			671			671		671
Real Estate Rents	78			78			78		78
Subtotal Other Steam Operating Revenues	80,455	7,167	(540)	87,082		(4,558)	82,524	(8)	82,516
Regulatory Deferrals									
Property Tax Deferrals	5,146	496		5,642			5,642		5,642
Pension and OPEB - Amortization of Deferral	548	34	(10,612)	(10,030)			(10,030)		(10,030)
Interest Rate True-Up (Auction Rate / Long Term Debt)	2,070	62		2,132			2,132		2,132
Carrying Charges - Plant balances	1,187			1,187			1,187		1,187
Former Employee / Contractor Settlements	1,154	(65)		1,089			1,089		1,089
Bonus Depreciation - Interest	5,697	(276)		5,421			5,421		5,421
Repair Allowance - Interest	125			125			125		125
263a Deferred Taxes	1,634			1,634			1,634		1,634
Carrying Cost - SIR Deferred Balances	70	4		74			74		74
World Trade Center	129	(33)		96	c	(598)	(502)		(502)
Preferred Stock Redemption Savings	167			167			167		167
Interference	18	(201)		(183)			(183)		(183)
Case 09-S-0794 Deferral	329			329			329		329
SIR	(1,997)		143	(1,854)			(1,854)		(1,854)
Medicare Part D	(570)		570	0	d	(20)	(20)		(20)
Sale of SO2 Allowances	(923)	(8)		(931)			(931)		(931)
Interest on deferred balances	(710)	67		(643)			(643)		(643)
Steam Peak Reduction Collaborative	(33)			(33)			(33)		(33)
Superstorm Sandy Restoration	(3,333)	856	311	(2,166)			(2,166)		(2,166)
59th Street Gas Conversion	(570)			(570)	e	570	0		0
Total Regulatory Deferrals	10,138	936	(9,588)	1,486		(48)	1,438	0	1,438
Total Other Operating Revenues	\$90,593	\$8,103	(\$10,128)	\$88,568		(\$4,606)	\$83,962	(\$8)	\$83,954

Consolidated Edison Company of New York, Inc.
Operation & Maintenance Expenses
For the Rate Year Ending December 31, 2014
(\$000's)

	Company				Adj. No. 4	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated			
A&G Expense Capitalized	(\$2,895)	(\$319)	\$1,055	(\$2,159)	a	\$565	(\$1,594)
Asbestos Removal and Abatement	309			309			309
Bargaining Unit Contract Cost	28			28			28
Boiler Cleaning	1,259			1,259			1,259
Building Service	1,412			1,412	b	(76)	1,336
Austerity	1,500			1,500	c	(1,500)	0
Communication - Telephone	862			862			862
Company Labor	62,603	432	75	63,110	d	(1,921)	61,189
Company Labor - Fringe Benefit Adjustment	305	3	54	362	e	(200)	162
Consultants	1,215	(306)		909	f	(119)	790
Contract Labor	84			84	g	66	150
Corporate Fiscal Expense	318	(89)	(7)	222			222
Corrective Maintenance	4,438			4,438			4,438
Disposal of Obsolete M&S	91			91			91
EDP Equipment Rentals and Maintenance	236		228	464			464
Electricity and Gas Used	10,423			10,423	h	10	10,433
Employee Pensions/OPEBs - Net	28,044	(612)	(85)	27,347	i	(679)	26,668
Employee Welfare Expense - Net	10,812	(3)	119	10,928	j	(1,026)	9,902
Environmental Affairs	477			477			477
Environmental Programs	1,613			1,613			1,613
Facilities Maintenance	1,949			1,949			1,949
Financial Services	787			787			787
Information Resources	2,766			2,766			2,766
Injuries and Damages	2,976			2,976			2,976
Institutional Dues and Subscriptions	64			64	k	(12)	52
Insurance Premiums	3,595	(9)	(78)	3,508	l	475	3,983
Interference	5,066		1,044	6,110	m	(1,075)	5,035
Management Audit Savings	0		(19)	(19)			(19)
Manhole Program	107			107			107
Manhour Expense	3,784			3,784			3,784
Materials & Supplies	2,484			2,484			2,484
Other - Fossil	3,551			3,551			3,551
Outside Legal Services	62			62			62
Plant Component Upgrade	76			76			76
Postage	20			20			20
Preventive Maintenance	1,310			1,310			1,310
Ravenswood	1,052			1,052			1,052
Real Estate Expenses	173			173			173
Regulatory Commission Expenses	2,106	(30)		2,076	n	(25)	2,051
Rents	1,023			1,023			1,023
Rents - Interdepartmental	20,038	(206)	(1,177)	18,655			18,655
Research & Development	917			917			917
Steam Incident Action Plan	1,724			1,724			1,724
Security	1,259		8	1,267			1,267
Sewer Charges	708			708			708
Shared Services	(689)			(689)			(689)
Steam Leaks	1,462			1,462			1,462
Steam Transfer Credit	(2)			(2)			(2)
Trenching	1			1			1
Uncollectible Reserve - Customer	425			425			425
Uncollectible Reserve - Sundry	31			31			31
Water	18,799			18,799	o	44	18,843
Water Chemicals	4,767			4,767	p	14	4,781
Water Treatment	133			133			133
Other	1,861	300	250	2,411	q	(560)	1,851
Escalation Adjustment	0	(248)		(248)			(248)
Total O & M Expenses	\$207,519	(\$1,087)	\$1,467	\$207,899		(\$6,019)	\$201,880

Consolidated Edison Company of New York, Inc.
Taxes Other Than Income Taxes
For the Rate Year Ending December 31, 2014
(\$000's)

	<u>Company</u>				Adj. No. 6	Staff Adjustments	As Adjusted By Staff	Revenue Increase/ (Decrease)	Per Staff After Increase/ (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
NYC Property Taxes	\$101,187	\$8,736	\$3,577	\$113,500	a	(\$211)	\$113,289		\$113,289
Property Tax Reconciliation	0			0			0		0
Total Property Tax	101,187	8,736	3,577	113,500		(211)	113,289		113,289
Revenue Taxes	17,956		(310)	17,646			17,646	(\$278)	17,368
Payroll Taxes	4,102	29	25	4,156	b	(128)	4,028		4,028
Sales & Compensating Use Tax	162	(1)		161			161		161
Subsidiary Capital Tax	467		(30)	437	c	(18)	419		419
All Other	61	(11)		50			50		50
Total Taxes Other Than Income Taxes	<u>\$123,935</u>	<u>\$8,753</u>	<u>\$3,262</u>	<u>\$135,950</u>		<u>(\$357)</u>	<u>\$135,593</u>	<u>(\$278)</u>	<u>\$135,315</u>

Consolidated Edison Company of New York, Inc.
New York State Income Tax
For the Rate Year Ending December 31, 2014
(\$000's)

	<u>Company</u>				Adj. No. 7	Staff Adjustments	As Adjusted By Staff	Revenue Increase/ (Decrease)	Per Staff After Increase/ (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Operating Income Before Income Taxes	\$155,001	\$1,868	(\$19,669)	\$137,200		\$5,373	\$142,573	(\$9,886)	\$132,687
FLOW THROUGH ITEMS:									
Deduct: Non-Taxable Income and Additional Deductions									
Interest Expense	36,896	2,157	(2,476)	36,577		2,077	38,654		38,654
Amortization of Preferred Stock Acquisition Costs	(76)			(76)			(76)		(76)
Manufacturing Deduction	0		(1,937)	(1,937)		1,937	0		0
Total Deductions	36,820	2,157	(4,413)	34,564		4,014	38,578		38,578
NORMALIZED ITEMS:									
Add: Additional Income and Unallowable Deductions									
Book Depreciation	81,010	(1,431)	316	79,895		(3,051)	76,844		76,844
Capitalized Interest	1,766	(200)	0	1,566			1,566		1,566
Pension and OPEB Expenses - Rate Year	28,044	(612)	(85)	27,347		(679)	26,668		26,668
Total Additions	110,820	(2,243)	231	108,808		(3,730)	105,078		105,078
Deduct: Non-Taxable Income and Additional Deductions									
New York State Depreciation	85,402	(1,074)	6,375	90,703		(2,687)	88,016		88,016
Removal Costs	23,639			23,639			23,639		23,639
Capitalized Overheads(263A)	6,934			6,934			6,934		6,934
Repair Allowance	12,000	1,402	(8,669)	4,733			4,733		4,733
Pension and OPEB Funding	37,271	(816)	714	37,169		(10,501)	26,668		26,668
Property Tax Deferrals	5,146	496		5,642			5,642		5,642
Pension and OPEB - Amortization of Deferral	548	34	(10,612)	(10,030)			(10,030)		(10,030)
Interest Rate True-Up (Auction Rate / Long Term Debt)	2,070	62		2,132			2,132		2,132
Carrying Charges - Plant balances	1,187			1,187			1,187		1,187
Former Employee / Contractor Settlements	1,154	(65)		1,089			1,089		1,089
Bonus Depreciation - Interest	5,697	(276)		5,421			5,421		5,421
Repair Allowance - Interest	125			125			125		125
263a Deferred Taxes	1,634			1,634			1,634		1,634
Carrying Cost - SIR Deferred Balances	70	4		74			74		74
World Trade Center	129	(33)		96		(598)	(502)		(502)
Preferred Stock Redemption Savings	167			167			167		167
Interference	18	(201)		(183)			(183)		(183)
Case 09-S-0794 Deferral	329			329			329		329
SIR	(1,997)		143	(1,854)			(1,854)		(1,854)
Medicare Part D	(570)		570	0		(20)	(20)		(20)
Sale of SO2 Allowances	(923)	(8)		(931)			(931)		(931)
Interest on deferred balances	(710)	67		(643)			(643)		(643)
Steam Peak Reduction Collaborative	(33)			(33)			(33)		(33)
Superstorm Sandy Restoration	(3,333)	856	311	(2,166)			(2,166)		(2,166)
59th Street Gas Conversion	(570)			(570)		570	0		0
Total Deductions	175,384	448	(11,168)	164,664		(13,236)	151,428		151,428
Total Adjustments to Income	(101,384)	(4,848)	15,812	(90,420)		5,493	(84,927)	0	(84,927)
NYS Taxable Income	\$53,617	(\$2,980)	(\$3,857)	\$46,780		\$10,866	\$57,646	(\$9,886)	\$47,760
Tax Computation									
Current NYS Income Tax @ 7.10%	3,807	(212)	(274)	3,321		771	4,093	(702)	3,391
Deferred NYS Income Tax @ 7.10%	4,584	191	(809)	3,966		(675)	3,291	0	3,291
Total New York State Income Tax	\$8,391	(\$21)	(\$1,083)	\$7,287		\$97	\$7,384	(\$702)	\$6,682

Consolidated Edison Company of New York, Inc.
Federal Income Tax
For the Rate Year Ending December 31, 2014
(\$000's)

	Company				Adj. No. 8	Staff Adjustments	As Adjusted By Staff	Revenue Increase/ (Decrease)	Per Staff After Increase/ (Decrease)
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated					
Operating Income Before Income Taxes	\$155,001	\$1,868	(\$19,669)	\$137,200		\$5,373	\$142,573	(\$9,886)	\$132,687
NYS Income Tax	8,391	(21)	(1,083)	7,287		97	7,384	(702)	6,682
Operating Income Before Federal Income Taxes	146,610	1,889	(18,586)	129,913		5,277	135,189	(9,184)	126,005
FLOW THROUGH ITEMS:									
Add: Additional Income and Unallowable Deductions									
Book Depreciation	81,010	(1,431)	316	79,895		(3,051)	76,844		76,844
Amortization of Preferred Stock Acquisition Costs	76			76		0	76		76
Manufacturing Deduction	0	1,937		1,937		(1,937)	0		0
Capitalized Interest	1,766	(200)		1,566			1,566		1,566
Total Additions	82,852	306	316	83,474		(4,988)	78,486	0	78,486
Deduct: Non-Taxable Income and Additional Deductions									
Interest Expense	36,896	2,157	(2,476)	36,577		2,077	38,654		38,654
Statutory Depreciation - at current book rates	46,012	(1,006)	2,422	47,428		1,704	49,132		49,132
Statutory Depreciation - change at proposed book rates	6,101	(2,803)	357	3,655		(3,655)	0		0
Removal Costs	23,639			23,639			23,639		23,639
Total Deductions	112,648	(1,652)	303	111,299		126	111,425	0	111,425
NORMALIZED ITEMS:									
Add: Additional Income and Unallowable Deductions									
Pension and OPEB Expense - Rate Year	28,044	(612)	(85)	27,347		(679)	26,668		26,668
Deferred NYS Income Tax	4,584	191	(809)	3,966		(675)	3,291		3,291
Total Additions	32,628	(421)	(894)	31,313		(1,354)	29,959	0	29,959
Deduct: Non-Taxable Income and Additional Deductions									
Excess Deprec. ADR/ACRS/MACRS	14,799	41,061	(37,533)	18,327		(3,095)	15,232		15,232
Excess Deprec. - change at proposed book rates	(6,101)		2,446	(3,655)		3,655	0		0
Capitalized Overhead (263A)	6,934			6,934			6,934		6,934
Repair Allowance	12,000	1,402	(8,669)	4,733			4,733		4,733
Pension and OPEB Funding	37,271	(816)	714	37,169		(10,501)	26,668		26,668
Property Tax Deferrals	5,146	496		5,642			5,642		5,642
Pension and OPEB - Amortization of Deferral	548	34	(10,612)	(10,030)			(10,030)		(10,030)
Interest Rate True-Up (Auction Rate / Long Term Debt)	2,070	62		2,132			2,132		2,132
Carrying Charges - Plant balances	1,187			1,187			1,187		1,187
Former Employee / Contractor Settlements	1,154	(65)		1,089			1,089		1,089
Bonus Depreciation - Interest	5,697	(276)		5,421			5,421		5,421
Repair Allowance - Interest	125			125			125		125
263a Deferred Taxes	1,634			1,634			1,634		1,634
Carrying Cost - SIR Deferred Balances	70	4		74			74		74
World Trade Center	129	(33)		96		(598)	(502)		(502)
Preferred Stock Redemption Savings	167			167			167		167
Interference	18	(201)		(183)			(183)		(183)
Case 09-S-0794 Deferral	329			329			329		329
SIR	(1,997)		143	(1,854)			(1,854)		(1,854)
Medicare Part D	(570)		570	0		(20)	(20)		(20)
Sale of SO2 Allowances	(923)	(8)		(931)			(931)		(931)
Interest on deferred balances	(710)	67		(643)			(643)		(643)
Steam Peak Reduction Collaborative	(33)			(33)			(33)		(33)
Superstorm Sandy Restoration	(3,333)	856	311	(2,166)			(2,166)		(2,166)
59th Street Gas Conversion	(570)			(570)		570	0		0
Total Deductions	75,041	42,583	(52,630)	64,994		(9,989)	55,005	0	55,005
Total Adjustments to Income	(72,209)	(41,046)	51,749	(61,506)		3,521	(57,985)	0	(57,985)
Federal Taxable Income	\$74,401	(\$39,158)	\$33,163	\$68,407		\$8,797	\$77,204	(\$9,184)	\$68,020
Tax Computation									
Current Federal Income Tax @ 35%	26,040	(13,705)	11,607	23,942		3,079	27,021	(3,214)	23,807
Deferred Federal Income Tax @ 35%	14,845	15,051	(18,108)	11,788		(3,022)	8,766	0	8,766
Amortization of Previously Deferred Federal Income Tax									
Depreciation - ADR/ACRS/MACRS - at current book rate	(5,366)	(281)	(82)	(5,729)			(5,729)		(5,729)
Depreciation-ADR/ACRS/MACRS-at proposed book rates		(1,446)	41	(1,405)		1,405	0		0
Depreciation - MACRS - SSCM	(1,267)	(17)		(1,284)			(1,284)		(1,284)
Loss on MACRS Retirements	(515)	2		(513)			(513)		(513)
Repair Allowance	(325)	(42)	(37)	(404)			(404)		(404)
Investment Tax Credit	(248)			(248)			(248)		(248)
Total Federal Income Tax	\$33,164	(\$438)	(\$6,578)	\$26,148		\$1,462	\$27,610	(\$3,214)	\$24,395

Consolidated Edison Company of New York, Inc.
Steam Rate Base
For the Rate Year Ending December 31, 2014
(\$000's)

	Company				Adj. No. 9	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated			
Utility Plant:							
Average Book Cost of Plant	\$2,182,900	\$29,000	\$22,500	\$2,234,400	a	(\$8,444)	\$2,225,956
Hudson Avenue Facility (transfer to Electric Dept.)	(92,288)			(92,288)	b	92,288	0
Average Accumulated Depreciation	(468,212)	94,800	(82,988)	(456,400)	c	200	(456,200)
Net Plant	1,622,400	123,800	(60,488)	1,685,712		84,044	1,769,756
Non-Interest Bearing CWIP	63,729	6,151	(6,056)	63,824	d	4,961	68,785
Working Capital	88,885	1,466	325	90,676	e	(588)	90,088
Deferred fuel - Net of Income Taxes	(3,534)	(1,093)		(4,627)	f	(4,700)	(9,327)
MTA Surtax - Net of FIT	472			472			472
Unamortized Debt Discount, Premium, Expense	11,307	(53)		11,254			11,254
Unamortized Preferred Stock Expense	2,120			2,120			2,120
Mount Vernon Properties (SIR Remediation)	106			106	g	(106)	0
Customer Advances for Construction	(1,481)	7		(1,474)			(1,474)
Regulatory Deferrals - Net of Income Taxes							
Property Tax Deferrals	(8,363)	(805)	0	(9,168)			(9,168)
Property Tax Refund	0			0	h.1	(22,750)	(22,750)
Interest Rate True-Up (Auction Rate / LTD)	(3,363)	(102)	0	(3,465)			(3,465)
Carrying Charges - Plant Balances	(1,930)	1	0	(1,929)			(1,929)
Former Employee / Contractor Settlements	(1,875)	105	0	(1,770)			(1,770)
Bonus Depreciation - Interest	(9,258)	449	0	(8,809)			(8,809)
Repair Allowance - Interest	(202)	(1)	0	(203)			(203)
263a Deferred Taxes	(2,655)		0	(2,655)			(2,655)
Carrying Cost - SIR Deferred Balances	(114)	(6)	0	(120)			(120)
World Trade Center	(271)		116	(155)	h.2	971	816
Preferred Stock Redemption Savings	(29)	327	(569)	(271)			(271)
Interference	(535)		833	298			298
Case 09-S-0794 Deferral	(209)	54	(380)	(535)			(535)
SIR	8,989	(1)	(3,564)	5,424			5,424
Medicare Part D	927		(926)	1	h.3	(32)	(31)
Sale of SO2 Allowances	1,500	13	0	1,513			1,513
Interest on Deferred Balances	1,154	(109)	0	1,045			1,045
Steam Peak Reduction Collaborative	54		0	54			54
Superstorm Sandy Restoration	5,417	(1,392)	(506)	3,519			3,519
59th Street Gas Conversion	927	0	0	927	h. 4	(927)	0
Accumulated Deferred Income Taxes							
ADR/ACRS/MACRS Deductions	(267,525)	(7,165)	(22,335)	(297,025)	i. 1	(801)	(297,826)
Repair Allowance	(3,035)	(2,553)	(2,956)	(8,544)			(8,544)
Change of Accounting Section 263A/SSCM Deduc	(35,440)		(3,060)	(38,500)			(38,500)
Excess Deferred SIT	(271)			(271)			(271)
Vested Vacation	772	(3)		769			769
Prepaid Insurance Expenses	(207)	1		(206)			(206)
Unbilled Revenues	8,535			8,535			8,535
Contribution in Aid of Construction	1,793			1,793			1,793
Deferred MTA	(1,474)			(1,474)			(1,474)
Capitalized Interest	5,943			5,943			5,943
Repair & Maintenance Allowance (IRS Audits)	2,142			2,142			2,142
Deferred SIT	(35,298)	115	(174)	(35,357)	i. 2	(11)	(35,368)
Earnings Base Capitalization Adjustment	(16,575)			(16,575)	j	(9,510)	(26,085)
Total Rate Base	\$1,433,528	\$119,206	(\$99,741)	\$1,452,994		\$50,551	\$1,503,545

Consolidated Edison Company of New York, Inc.
Steam Working Capital Allowance
For the Rate Year Ending December 31, 2014

	Company				No. 9	Staff Adjustments	As Adjusted By Staff
	As Initially Filed	Preliminary Update	Rebuttal Update	As Updated			
Materials & Supplies							
Average Balance of Liquid Fuel	\$2,762	(\$12)		\$2,750			\$2,750
Average Balance of Materials & Supplies Excluding Liquid Fuel	34,335	(151)		34,184			34,184
Total Materials & Supplies	37,097	(163)		36,934		-	36,934
Prepayments							
Insurance	910		(22)	888	e. 1	\$108	996
Property Taxes	21,081	1,749	816	23,646	e. 2	(44)	23,602
PSC Assessment	536	(6)		530			530
Regulatory Assessment - 18A Legislation							
Software & Maintenance Contracts	144	(1)		143			143
Interference	42			42			42
Other	597	(3)		594			594
Total Prepayments	23,310	1,739	794	25,843		64	25,907
Cash Working Capital							
Total Operations & Maintenance Expense	385,428	(1,087)	(5,497)	378,844		(5,215)	373,629
Less:							
Purchased Power Expense	47,631			47,631			47,631
Gas Portion of Fuel	92,098			92,098			92,098
Recoverable Fuel Costs	(7,780)		(1,698)	(9,478)			(9,478)
Interdepartmental Rents	20,038	(206)	(1,177)	18,655			18,655
Uncollectible	425			425			425
Subtotal	152,412	(206)	(2,875)	149,331		-	149,331
Cash Working Capital Subject to 1/8th Allowance	233,016	(881)	(2,622)	229,513		(5,215)	224,298
Cash Working Capital @ 1/8th	29,127	(110)	(328)	28,689	e. 3	(652)	28,037
Cash Working Capital @ 1/12th on Recoverable Fuel Costs	(648)		(142)	(790)			(790)
Total Cash Working Capital	28,479	(110)	(470)	27,899		(652)	27,247
Total Working Capital	\$88,886	\$1,466	\$325	\$90,676		(\$588)	\$90,088

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 31, 2014
(\$000's)

Adj.	No.	Explanation	Amount
	1	<u>Sales Revenues - Schedule 1</u> To reflect Staff's sales position on sales revenues in the rate year.	<u>\$1,356</u>
	2	<u>Other Operating Revenues - Schedule 2</u>	
	a.	<u>Interdepartmental Rents - ERRP</u> To reduce ERRP rent revenues based on Staff's recommended cost of capital.	(\$4,559)
	b.	<u>Late Payment Charges</u> Tracking Staff's sales revenue adjustment subject to Late Payment Charges.	1
	c.	<u>WTC Deferral</u> To update and correct the Company's amortization of WTC related costs & recoveries.	(598)
	d.	<u>Medicare Part D</u> To update and correct the amortization of the Medicare Part D deferral in the rate year.	(20)
	e.	<u>59th Street Gas Conversion Deferral</u> To remove the Company's proposed recovery of carrying costs related to the 59th street gas conversion.	570
		Total Adjustment to Other Operating Revenues	<u>(\$4,606)</u>
	3	<u>Fuel - Schedule 1</u> To reflect the rate year fuel costs based on Staff's sales forecast.	<u>\$804</u>
	4	<u>Operations and Maintenance Expense - Schedule 3</u>	
	a.	<u>A&G Expense Capitalized</u> To update and correct Staff's recommended rate year forecast.	\$565
	b.	<u>Building Service</u> To reflect Staff's recommended rate year forecast .	(76)
	c.	<u>Austerity Adjustment</u> To reflect the removal of the Company's proposed austerity adjustment.	(1,500)
	d.	<u>Company Labor</u>	
	1	To reflect Staff's recommended employee headcount in the rate year.	(\$1,591)
	2	To reflect Staff's adjustment to the Company's rate year labor program changes.	(272)
	3	To reflect Staff's adjustment to the Company's Gold Program.	<u>(58)</u>
		Total Adjustment to Company Labor	(1,921)
	e.	<u>Company Labor-Fringe Benefit Adjustment</u> To reflect the effect of Staff's labor program change adjustment.	(200)
	f.	<u>Consultants</u> To reflect the removal of expenses related to the PSC's investigative audit.	(119)
	g.	<u>Contract Labor</u> To reflect positions filled by outside contractors.	66
	h.	<u>Electricity and Gas Used</u> To reflect Staff's recommended rate year forecast.	10
	i.	<u>Employee Pensions/OPEBs</u> To reflect the removal of the Supplemental Retirement Income Plan expenses.	(679)
	j.	<u>Employee Welfare Expense</u> To reflect Staff's recommended forecast for health care costs in the rate year.	(1,026)
	k.	<u>Institutional Dues and Subscriptions</u> To remove employee benefit contributions from the Company's rate year forecast.	(12)

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 31, 2014
(\$000's)

Adj.	No. Explanation	Amount
	<u>Operations and Maintenance Expense - Schedule 3</u>	
	<u>l. Insurance Premiums</u>	
	To reflect the Company's latest known property insurance premiums.	475
	<u>m. Interference</u>	
	To reflect Staff's recommended forecast for interference expense in the rate year.	(1,075)
	<u>n. Regulatory Commission Expense</u>	
	To reflect the removal of expenses related to the PSC's investigative audit.	(25)
	<u>o. Water</u>	
	To reflect Staff's recommended rate year forecast.	44
	<u>p. Water Chemicals</u>	
	To reflect Staff's recommended rate year forecast.	14
	<u>q. Other</u>	
	1 To reflect Staff's recommended imputation of Project One Savings.	(\$369)
	2 To reflect Staff' non-labor adjustment to the Company's Gold Program.	(1)
	3 To update and correct the Company's rate year forecast for Platts Service.	<u>(190)</u>
		(560)
	Total Adjustment to Operation & Maintenance Expense	<u><u>\$ (6,019)</u></u>
5	<u>Depreciation Expense - Schedule 1</u>	
	To reflect Staff's recommended depreciation rates and forecast of plant in service.	<u><u>(\$3,051)</u></u>
6	<u>Taxes Other Than Income Taxes -Schedule 4</u>	
	<u>a. Property Taxes</u>	
	Tracking Staff's rate year forecast of 2013 and 2014 plant additions.	(\$211)
	<u>b. Payroll Taxes</u>	
	Tracking Staff's rate year forecast of Company labor.	(128)
	<u>c. Subsidiary Capital Tax</u>	
	To reflect the rate year forecast based on Staff's rate year common equity.	(18)
	Total Adjustment to Taxes Other Than Income Taxes	<u><u>(\$357)</u></u>
7	<u>New York State Income Tax - Schedule 5</u>	
	To reflect Staff's SIT adjustments per Schedule 5.	<u><u>\$97</u></u>
8	<u>Federal Income Tax - Schedule 6</u>	
	To reflect Staff's FIT adjustments per Schedule 6.	<u><u>\$1,462</u></u>
9	<u>Rate Base - Schedule 7</u>	
	<u>Utility Plant</u>	
	<u>a. Book Cost of Plant</u>	
	To reflect Staff's forecast of rate year plant in service.	(\$8,444)
	<u>b. Hudson Avenue Facility</u>	
	To reflect the facility remaining in steam service.	92,288
	<u>c. Accumulated Depreciation</u>	
	To reflect Staff's forecast of rate year accumulated reserve for depreciation.	<u>200</u>
	Total Adjustment to Net Utility Plant	<u><u>\$ 84,044</u></u>

Consolidated Edison Company of New York, Inc.
Explanation of Staff's Adjustments
For the Rate Year Ending December 31, 2014
(\$000's)

Adj. No. Explanation	Amount
d. <u>Non-Interest Bearing CWIP</u>	
1 To reflect Staff's forecast of rate year NIBCWIP.	\$4,188
2 To align the Company's rebuttal plant model with Staff's plant model.	773
Total Adjustment to Non-Interest Bearing CWIP	\$4,961
e. <u>Working Capital - Schedule 8</u>	
1 <u>Prepayments - Insurance</u>	
Tracking Staff's adjustments to rate year insurance expense.	108
2 <u>Prepayments - Property Taxes</u>	
Tracking Staff's adjustments to rate year property tax expense.	(44)
3 <u>Cash Working Capital</u>	
Tracking Staff's adjustments to O&M expense.	(652)
Total Adjustment to Working Capital	(588)
f. <u>Deferred Fuel</u>	
To reflect Staff's recommended rate year forecast of deferred fuel expense.	(4,700)
g. <u>Mount Vernon Properties</u>	
To reflect the removal of the Mount Vernon properties from rate year rate base.	(106)
h. <u>Regulatory Deferrals</u>	
1 <u>Property Tax Refunds</u>	
To reflect Company's receipt of NYC property tax refund on July 24, 2013.	(22,750)
2 <u>WTC Deferral</u>	
Tracking the update and correction to the Company's forecast of deferred WTC expenses.	971
3 <u>Medicare Part D Deferral</u>	
Tracking the update and correction to the forecast of deferred Medicare Part D expenses.	(32)
4 <u>59th Street Gas Conversion Deferral</u>	
To reflect Staff's recommended removal of the carrying costs related to the 59th street gas conversion.	(927)
Total Adjustment to Regulatory Deferrals	(22,738)
i. <u>Accumulated Deferred Income Taxes</u>	
1 <u>ADR/ACRS/MACRS Deductions</u>	
Tracking Staff's adjustment to depreciation expense in the rate year.	(801)
2 <u>Deferred SIT</u>	
Tracking Staff's SIT calculation.	(11)
Total Adjustment to Accumulated Deferred Income Taxes	(812)
j. <u>Earnings Base Capitalization Adjustment</u>	
To remove the capitalization supporting SRIP fund from the EBCap adjustment.	(9,510)
Total Adjustments to Rate Base	\$50,551