

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Consolidated Edison Company of New York, Inc.

Case 06-G-1332

March 2007

Prepared Testimony of:

Staff Finance Panel

Craig E. Henry
Associate Utility Financial
Analyst
Office of Accounting, Finance
and Economics

Michael J. Augstell
Senior Utility Financial Analyst
Office of Accounting, Finance
and Economics

State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

- 1 Q. Please state your names, business address, and
2 current positions.
- 3 A. Craig E. Henry and Michael J. Augstell. We are
4 employed by the New York State Department of
5 Public Service (Department). Our business
6 address is Three Empire State Plaza, Albany, New
7 York 12223.
- 8 Q. Mr. Henry, what is your position with the
9 Department?
- 10 A. I am an Associate Utility Financial Analyst in
11 the Office of Accounting, Finance and Economics.
- 12 Q. Please summarize your educational and
13 professional background.
- 14 A. Please see "Prepared Testimony of Craig E.
15 Henry."
- 16 Q. Mr. Augstell, what is your position with the
17 Department?
- 18 A. I am employed as a Senior Utility Financial
19 Analyst in the Office of Accounting, Finance and
20 Economics.
- 21 Q. Please describe your educational background and
22 professional experience.
- 23 A. I received a Bachelor of Arts Degree in
24 Economics from the University of Rochester in

1 1992. I worked for three years in the
2 commercial loan department at two separate
3 banks. I was also employed as a financial
4 analyst in sourcing accounts payable for General
5 Electric Power Systems. My last position, for
6 over five years, was at UHY Advisors NY, Inc.
7 (UHY). I worked in the valuation and litigation
8 services department. While at UHY, I executed
9 business valuations, performed financial
10 analysis and forensic accounting and did class
11 action claims administration. Business
12 valuations were prepared for many purposes,
13 including gift and estate tax, family limited
14 partnerships, Statements of Financial Accounting
15 Standards (SFAS) No. 141 and No. 142,
16 bankruptcies, employee stock ownership plans
17 (ESOPs) and for bankruptcy proceeding. I joined
18 the Department of Public Service in December
19 2006.

20 Q. Are you a member of any professional societies?

21 A. Yes. I am a candidate member in the American
22 Society of Appraisers (ASA). I am working
23 towards becoming accredited in business
24 valuation.

1 Q. Please briefly describe your current
2 responsibilities with the Department.

3 A. I work on assignments that involve analyzing the
4 financial condition, financing mechanisms, risk,
5 cost of debt, cost of equity, diversification
6 and relative business positions of utilities and
7 their holding company parent(s). Assignments
8 involve rate cases, financing proposals and
9 special projects.

10 Q. Is this your first time testifying before the New
11 York State Public Service Commission?

12 A. Yes.

13 **PURPOSE OF TESTIMONY**

14 Q. What is the purpose of your testimony in this
15 proceeding?

16 A. The primary purpose of our testimony is to
17 develop the rate of return on rate base which is
18 used to determine Con Edison Company of New
19 York, Inc.'s (Con Edison or the Company) gas
20 revenue requirement for the rate year ending
21 September 30, 2008. We will also address the
22 likely impact of our recommendations on Con
23 Edison's ability to attract capital at
24 reasonable terms.

1 **SUMMARY**

2 Q. Please summarize your testimony.

3 A. We recommend a rate of return of 7.16% as
4 opposed to the Company's request of 8.66%. The
5 difference is primarily due to our use of a
6 47.04% equity ratio and an 8.8% return on equity
7 (ROE), as opposed to the Company's 48.33% equity
8 ratio and 11.6% ROE.

9 We will demonstrate how our capital
10 structure adjustment, which imputes a reasonable
11 level of common equity investment by the parent
12 in its non-utility operations, results in the
13 appropriate capital structure to be used in
14 developing Con Edison's rate of return. While
15 support for the reasonableness of our cost of
16 equity component is addressed separately in
17 additional testimony of Staff witness Henry, we
18 will provide recommendations as to the
19 appropriate cost rates of the remaining capital
20 structure components. Finally, we will explain
21 how our recommended rate of return leaves the
22 Company in a strong financial position, thus
23 ensuring it continued access to capital at
24 reasonable terms.

1

2 **RATE OF RETURN RECOMMENDATION**

3 **CAPITAL STRUCTURE**

4 Q. What is the after-tax rate of return you
5 recommend be allowed for the rate year?

6 A. We recommend an after-tax rate of return of
7 7.16%, compared to the Company's originally
8 filed 8.66% cost rate. Our proposed pro forma
9 cost of capital can be seen in Exhibit__ (FP-1).

10 Q. Please describe how your capital structure and
11 cost rate recommendations differ from those of
12 Company witness Cunha.

13 A. There are essentially three differences. First,
14 we adjusted the actual debt-equity composition
15 of the parent's non-regulated investments to
16 reflect a more reasonable financing strategy.
17 This, in turn, resulted in a lower "utility"
18 common equity ratio (47.04% versus 48.33%) and a
19 higher "utility" long-term debt ratio (50.56%
20 versus 49.25%). Further, as supported in the
21 separate testimony of Staff witness Henry, we
22 use a lower cost of equity (8.8% versus 11.6%)
23 and, for reasons discussed later a lower cost of
24 long-term debt (5.78% versus 5.98).

- 1 Q. What was Con Edison's projected rate year
2 capitalization for its gas operations?
- 3 A. In Exhibit __ (JC-1), Company witness Cunha used
4 a long-term debt ratio of 49.25%, a common
5 equity ratio of 48.33%, a preferred stock ratio
6 of 1.20% and a customer deposits ratio of 1.22%.
- 7 Q. How did the Company develop this capitalization?
- 8 A. The average rate year capitalization was
9 developed by starting with the Company's as-
10 reported "stand-alone" capital structure for the
11 test period. Then, based upon assumptions about
12 construction expenditures, refunding needs and
13 internal cash flows, this "stand-alone" capital
14 structure was projected for the rate year.
- 15 Q. Please describe what you mean by the term
16 "stand-alone" capital structure.
- 17 A. A utility holding company reports its overall
18 capital structure as part of its consolidated
19 balance sheet in various reports to the
20 Securities and Exchange Commission (SEC) as well
21 as in its Annual and Quarterly Reports to
22 Shareholders. The consolidated balance sheet
23 reflects the financial position of all of the
24 parent holding company's operations. A holding

1 company with utility subsidiaries also presents
2 the individual financial statements of its major
3 subsidiaries. The "stand-alone" capital
4 structure is thus the reported capitalization
5 for each individual subsidiary.

6 Con Edison is a wholly-owned subsidiary of
7 Consolidated Edison Inc. (CEI). CEI owns both
8 Con Edison and Orange & Rockland utilities, Inc.
9 (Orange and Rockland), and has investments in
10 several competitive ventures. CEI reports its
11 consolidated financial position in its annual
12 10-K and quarterly 10-Q reports to the SEC; it
13 also presents stand-alone financial statements
14 for both Con Edison and Orange and Rockland.

15 Q. Do you agree with the use of the reported stand-
16 alone capital structures for utilities that are
17 subsidiaries of larger holding companies?

18 A. While there are instances in which such an
19 approach may be warranted, a careful analysis of
20 the holding company's financing practices is
21 necessary to determine its appropriateness.
22 Stand-alone capital structures for utility
23 subsidiaries of holding companies may not
24 reflect either rational capitalization policies

1 or actual common equity employed, and therefore
2 may not be suitable for establishing a utility's
3 rate of return.

4 Q. Explain why the use of a stand-alone capital
5 structure may not be reasonable.

6 A. The stand-alone common equity balance reported
7 by a utility subsidiary of a holding company
8 may, in fact, not be financed by common equity
9 at the holding company level. Rather, some of
10 the utility common equity balance may instead
11 actually be proceeds from debt issued at the
12 holding company level and classified on the
13 utility subsidiary's books as common equity at
14 the time the proceeds were invested in the
15 utility subsidiary. This is referred to as
16 double leverage.

17 In addition, the use of a stand-alone
18 subsidiary structure is not appropriate for
19 setting a utility's rates in cases where a
20 holding company parent has financed riskier
21 competitive non-utility operations with less
22 equity and more debt than its safer utility
23 operations. Unless the utility subsidiary's
24 credit rating is insulated from these risks,

1 using the stand-alone capital structure would
2 effectively require ratepayers of a low-risk
3 transmission and distribution (T&D) company to
4 subsidize its parent's riskier investments.

5 Q. Does it appear that CEI has double leveraged Con
6 Edison's common equity?

7 A. No, it does not.

8 Q. Does it appear that CEI has used the strength of
9 its utility operations to finance its riskier
10 non-regulated investments with less equity than
11 would be required for the unregulated
12 investments to achieve the same credit rating as
13 the utility?

14 A. Yes. As illustrated in Exhibit__ (FP-2), per
15 CEI's 10-Q report, CEI's utility operations were
16 financed with 49.6% equity as of September 30,
17 2006, while its riskier non-utility operations
18 were capitalized with only 34.1% equity.

19 Q. Please explain why you view CEI's non-utility
20 investments as riskier than its utility
21 subsidiaries, Con Edison and Orange and
22 Rockland?

23 A. On a very elemental level, non-utility
24 activities will nearly always have greater

1 business risk than corresponding utility
2 operations because they face real competition
3 from other entities, and are not subject to
4 "cost-plus" recovery of their expenses.
5 According to an S&P Research Report dated
6 December 6, 2006, CEI's nonregulated activities
7 consist of energy related services, ownership
8 and operation of electric generating facilities,
9 and energy-related operations and risk
10 management services. Given that all of these
11 activities are in competitive markets, they are
12 by virtue of their nature, riskier than CEI's
13 utility businesses.

14 According to another S&P Research Report
15 dated June 8, 2006, it is clear that Con Edison
16 is viewed as a very low risk T&D company as
17 noted on page 5 of the report: "CEI has
18 virtually no competition in its regulated
19 businesses. Most of CEI's operating revenues
20 come from New York City, where competition in
21 the distribution business is economically
22 unfeasible." Meanwhile, in a testament to the
23 effects of competitive market forces on its non-
24 regulated businesses, the same S&P report

1 indicates that "...the unregulated subsidiaries
2 are forecast to generate slight losses, or be
3 earnings neutral through 2009..." (Page 3)

4 Q. Given your concerns about the manner in which
5 CEI has financed its non-regulated investments,
6 please take us through the steps you took to
7 determine an appropriate ratemaking
8 capitalization for Con Edison.

9 A. We began our projection of the appropriate
10 ratemaking capital structure by employing the
11 most recent actual balance sheet data. For Con
12 Edison and CEI we obtained this data from the
13 September 30, 2006 quarterly report (10-Q),
14 filed with the SEC. For Orange and Rockland, we
15 accessed the balance sheet data from its
16 website. The results are shown on Exhibit (FP-
17 2), Page 1.

18 Q. What was CEI's actual capital structure at
19 September 30, 2006 per its 10-Q?

20 A. CEI had a capital structure of 49.1% debt, 1.3%
21 preferred stock, 1.4% customer deposits and
22 48.2% equity.

23 Q. What was the capital structure for Con Edison at
24 September 30, 2006 per its 10-Q?

- 1 A. Con Edison had a capital structure comprised of
2 47.4% debt, 1.5% preferred stock, 1.5% customer
3 deposits and 49.6% equity.
- 4 Q. What was the capital structure for Orange and
5 Rockland at September 30, 2006 per its financial
6 statements?
- 7 A. Orange and Rockland had a capital structure
8 comprised of 48.0% debt, 1.9% customer deposits
9 and 50.1% equity.
- 10 Q. What did you do with this information?
- 11 A. We established the capitalization utilized by
12 CEI to finance separately its utility and its
13 non-utility operations at September 30, 2006.
14 To determine the capitalization of the utility
15 operations we combined Con Edison and Orange and
16 Rockland balance sheet data. We then backed
17 these balances out from CEI's consolidated
18 balance sheet to determine the actual
19 capitalization supporting its non-utility
20 operations.
- 21 Q. What was the capital structure for the utility
22 and non-utility operations at September 30,
23 2006?
- 24 A. As illustrated in Column 4 of Exhibit__ (FP-2),

1 Page 1, the utility operations capital structure
2 was 47.5% debt, 1.4% preferred stock, 1.5%
3 customer deposits and 49.6% equity. Meanwhile,
4 as seen in Column 5 of that exhibit, the non-
5 utility operations were financed with 65.9% debt
6 and 34.1% equity.

7 Q. What adjustments did you make to the actual
8 capitalization of CEI's non-utility operations
9 to reflect a financing strategy commensurate
10 with their risk profile?

11 A. As illustrated in Column 6 of Exhibit__ (FP-2),
12 Page 1, we imputed an even split of 50% debt and
13 50% equity, which is roughly the same split
14 employed for the utility operations. Given the
15 higher risk entailed in these competitive
16 ventures, our imputation that their equity ratio
17 need only be as high as that of the regulated
18 entities, is conservative.

19 Q. What effect did this imputation have on the
20 capital composition of the utility operations?

21 A. As illustrated in Column 7 of Exhibit__ (FP-2),
22 Page 1, the imputation of a more rational
23 financing strategy for the non-utility
24 operations results in a decrease in the common

1 equity ratio (from 49.6% to 48.1%) and a
2 corresponding increase in long-term debt (from
3 47.5% to 49.0%).

4 Q. What adjustments did you make to reflect the
5 impact of construction expenditures, refunding
6 needs and internal cash flows on the utility
7 capital structure through the end of the rate
8 year?

9 A. As illustrated on Page 2 of Exhibit__ (FP-2), we
10 calculated average rate year balances for both
11 common equity and long-term debt using
12 information available in Mr. Cunha's workpapers
13 as well as information submitted by company
14 witness Perkins on behalf of Orange and Rockland
15 in Case 06-E-1433. To project Con Edison's
16 common equity, we used the quarterly changes
17 expected by the company per Mr. Cunha's
18 workpapers. For Orange and Rockland's common
19 equity, we assumed a steady increase of
20 approximately \$8.3 million per quarter through
21 September 30, 2008. We utilized this growth in
22 Orange and Rockland's common equity balances
23 specifically because it resulted in an average
24 common equity balance for the 12 months ending

1 December 31, 2007 of \$403 million; the projected
2 average common equity balance per Company
3 witness Perkins for that period.

4 Once we determined the average rate year
5 utility balances of common equity and long-term
6 debt, we incorporated these amounts into Column
7 9 of Exhibit__(FP-2), Page 1. We then used
8 these amounts, together with the Company's
9 projected balances of preferred stock and
10 customer deposits, to determine the
11 capitalization ratios used in Exhibit__(FP-1).

12 Q. Given your adjustments, what is the appropriate
13 rate year capitalization for the purpose of
14 setting Con Edison's gas rates in this
15 proceeding?

16 A. As illustrated at the bottom of Column 9 of
17 Exhibit__(FP-2), Page 1, we recommend that the
18 Commission employ a long-term debt ratio of
19 50.56%, a preferred stock ratio of 1.20%, a
20 customer deposits ratio of 1.20%, and a common
21 equity ratio of 47.04%.

22 Q. You discussed earlier that among the main
23 differences in your rate of return calculation
24 is that Staff's common equity ratio is less than

1 the Company's (47.04% versus 48.33%) and that
2 its long-term debt ratio is higher (50.56%
3 versus 49.25%). Has the Company acknowledged
4 any errors in its original filing that suggest
5 its forecasted common equity ratio is too high?

6 A. Yes. The Company's forecasted capitalization
7 illustrated in Exhibit__ (JC-1) erroneously used
8 the rate year ending balance of common equity
9 instead of the average common equity balance.
10 In its response to Staff IR #282, which is
11 illustrated in Exhibit__ (FP-3), the Company
12 indicated that its forecasted capitalization
13 will be revised accordingly during the update
14 stage of this proceeding.

15 Q. What would the Company's own capitalization
16 ratios be if the correct average common equity
17 balance is employed instead?

18 A. Nearly identical to Staff's: 46.91% common
19 equity and 50.60% long-term debt.

20 **COST RATES**

21 Q. Starting with the cost of common equity, please
22 explain how you derived the respective cost
23 rates for each of the four components in your
24 rate of return calculation shown in

- 1 Exhibit__(FP-1).
- 2 A. Our 8.8% cost of common equity is based on the
3 recommendation of Staff witness Henry.
- 4 Q. How did you derive the 3.65% cost rate for the
5 customer deposits component?
- 6 A. The appropriate customer deposits rate is
7 determined annually by the Commission. The
8 Commission prescribed the 3.65% cost rate in
9 October 2006 for use beginning January 1, 2007.
- 10 Q. How did you derive the 5.34% preferred stock
11 cost rate?
- 12 A. We analyzed the 5.34% cost rate submitted by
13 Company witness Cunha and determined that it was
14 reasonable.
- 15 Q. Turning finally to the cost of the long-term
16 debt component, do you agree with the 5.98% cost
17 rate proposed by the Company, which is
18 illustrated on page 2 of Exhibit__(JC-1)?
- 19 A. No. We will explain why we found this estimate
20 too high, and recommend instead the cost rate of
21 5.78%, which is illustrated in Exhibit__(FP-4).
- 22 Q. Did you make any adjustments to the average
23 long-term debt outstanding during the rate year?
- 24 A. No. As discussed earlier, we made no

1 adjustments to the Company's proposed capital
2 budget. Therefore, all of the individual debt
3 series' balances upon which our cost of debt
4 calculation is based are identical to those of
5 Company witness Cunha.

6 Q. Did you detect any errors in Company witness
7 Cunha's cost of debt calculation?

8 A. Yes. In verifying the cost rates of each of the
9 series of outstanding debentures, we noticed
10 that Mr. Cunha's weighted cost of long-term debt
11 incorrectly reflected a cost rate of 5.51% for
12 the 2005 \$350 million Series C. Our cost of
13 debt calculation correctly reflects the 5.375%
14 rate reported in CEI's 2005 10-K.

15 Q. Did your analysis find that the Company's
16 October 2006 filing overestimated the cost rate
17 of the long-term debt that was subsequently
18 issued in December 2006?

19 A. Yes. Company witness Cunha's Exhibit (JC-1)
20 forecasts that this debt would be a \$500 million
21 thirty-year issuance at 6.5%. In actuality, the
22 debentures were issued as two separate series: a
23 \$250 million 10-year "Series D" at 5.3%, and a
24 \$250 million 30-year "Series E" at 5.7%. Our

1 cost of long-term debt calculation reflects the
2 actual rates.

3 Q. Do you expect the company's updated filing will
4 reflect both of these adjustments?

5 A. Yes, according to its responses to Staff IR's
6 #291 and #292 which are shown in Exhibit__ (FP-
7 3), the appropriate costs will be reflected in
8 an updated cost of long-term debt calculation.

9 Q. Does your analysis indicate that the Company
10 continues to overestimate its cost of new long-
11 term debt; specifically, the cost rates
12 associated with its proposed issuance of an
13 additional \$2.59 billion of long-term debt
14 through September 30, 2008?

15 A. Yes. Con Edison is projecting a total of six
16 new series of debentures, three with 10-year
17 maturities and three with 30-year maturities.
18 For the securities with 10-year maturities, the
19 Company is forecasting cost rates between 6.34%
20 and 6.39%; for the 30-year debt, its forecasted
21 cost rates range from 6.53% to 6.71%.

22 Based upon Federal Reserve Statistical
23 Release data that show current (as of February
24 9, 2007) 10-year Treasury securities yielding

1 4.77% and 30-year Treasuries yielding 4.86%,
2 these projections imply that: 1) that new 10-
3 year Con Edison debt will require a premium of
4 between 1.57% and 1.62% above the benchmark 10-
5 year treasury security and, 2) that new 30-year
6 Con Edison debt will cost between 1.67% and
7 1.75% above the 30-year benchmark treasury debt.

8 These premiums above comparable treasuries
9 are clearly excessive when compared to the
10 actual spreads of the Company's December 1, 2006
11 issuances: the Company's 5.30%, 10-year debt was
12 issued at a premium of only 0.87% above the
13 then-current 4.43% yield on 10-year treasuries;
14 its 5.70%, 30-year debt was issued at a premium
15 of 1.16% above the then-current 4.54% yield on
16 30-year Treasuries.

17 Thus based upon the most recent actual
18 spreads achieved by Con Edison (0.87% and 1.16%)
19 and the most recent yield (actually as of
20 February 9, 2007) on 10 and 30-year Treasury
21 securities (4.77% and 4.86%), we determined:
22 that a reasonable estimate of the cost of new
23 10-year Con Edison debt is approximately (4.77%
24 + 0.87%) 5.64%; and that a reasonable estimate

1 of new 30-year Con Edison debt is about (4.86% +
2 1.16%) 6.02%.

3 Q. Why did you use the most current Treasury rates
4 as a proxy for future interest rates?

5 A. Because the Commission has long recognized the
6 fact that the most recent interest rate
7 information is the best indicator of future
8 interest rates.

9 Q. Do you recommend that your cost of debt
10 calculation be updated at the time of the
11 Commission's decision to reflect the latest
12 known information?

13 A. Yes.

14

15 **CREDIT QUALITY ISSUES**

16 Q. In his discussion regarding the issue of credit
17 quality, Company witness Perkins presents a
18 September 21, 2006 analysis by S&P suggesting
19 that the Company's consolidated financial ratios
20 are weak for their rating, and that a downgrade
21 could occur if improvements in the Company's
22 financial metrics do not improve as expected.
23 Mr. Perkins specifically highlights the
24 importance S&P attaches to "regulatory support,"

1 with regard to improving the financial ratios.
2 Would you please comment on: 1) Con Edison's
3 current credit profile; 2) the influence of the
4 company's financing strategy on its financial
5 ratios; and 3) the impact of Staff's rate of
6 return recommendation on the company's ability
7 to attract capital at reasonable terms?

8 A. First of all, the Company's current debt ratings
9 ("A1" by Moody's and "A" by S&P) place it well
10 above most of its electric utility peers. As
11 illustrated in Exhibit__ (CEH-1), only eight out
12 of the 61 Value Line electrics are rated A/A or
13 higher. Thus, Con Edison is in a better
14 position than the vast majority of its peers to
15 attract capital at reasonable terms.

16 Nonetheless, as Company witness Perkins
17 points out, S&P has concluded that the
18 consolidated company's (CEI) adjusted leverage
19 is currently too high for its rating. S&P
20 factors in items such as the present value of
21 the company's power purchase agreements, certain
22 operating leases, and what it considers unfunded
23 pension and other post-retirement benefits as
24 debt-like.

1 According to an S&P's Ratings Direct
2 analysis dated June 8, 2006, the adjusted
3 consolidated debt ratio stood at 59% at the end
4 of 2005 and was projected to grow slightly to
5 60% at the end of 2006, before falling to 56% by
6 2008. (Page six) S&P's financial guidelines
7 require total debt to total capital of no more
8 than 58% for a utility with Con Edison's rating
9 and business profile ("A" and "2" respectively).
10 It is clear that S&P believes the future
11 reduction in leverage will result partly from
12 the \$220.4 million electric rate increase in
13 April 2007.

14 In our view, such an improvement will also
15 require a balanced funding of the construction
16 program. However, as illustrated on page 1 of
17 Exhibit__(FP-2) instead of employing a greater
18 proportion of common equity to fund its upcoming
19 capital requirements, we see Con Edison's use of
20 leverage actually increasing from 49.6% at
21 September 30, 2006 to 50.56% during the rate
22 year. Thus, it appears that the Company's
23 funding strategy, as currently constituted, may
24 not produce the financial improvement expected

1 by S&P, and could result in a downgrading.

2 Q. What impact will Staff's rate of return
3 recommendation have on the Company's ability to
4 attract capital at reasonable terms?

5 A. First, it is difficult to view our proposed
6 capitalization as anything other than
7 "supportive" given that our common equity ratio
8 (47.04%) is actually higher than the Company's
9 corrected common equity ratio (46.91%). We also
10 have seen no compelling reason offered by the
11 Company to charge customers a higher cost of
12 equity for the purpose of bolstering its
13 financial profile.

14 As we noted earlier, responsibility for the
15 appropriate capital mix lies firmly in the hands
16 of Con Edison's management. Moreover, as the
17 Company's financial profile has been shown to be
18 stronger than almost all of its peers, there is
19 little doubt that it will be able to continue
20 issuing debt at reasonable rates.

21 Q. Do you recommend updating the rate of return?

22 A. Yes. Prior to a decision by the Commission in
23 this case, we recommend that our methodology be
24 updated.

- 1 Q. Does this conclude your testimony?
- 2 A. Yes it does.

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Prepared Exhibit of:

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
 RATE OF RETURN REQUIRED FOR THE RATE YEAR
TWELVE MONTHS ENDING SEPTEMBER 30, 2008

	<u>Avg Capital Structure</u>	<u>Cost Rate</u>	<u>Cost of Capital</u>
	<u>Percent</u>		
Long Term Debt	50.56%	5.78%	2.92%
Preferred Stock	1.20%	5.34%	0.06%
Customer Deposits	<u>1.20%</u>	3.65%	<u>0.04%</u>
Subtotal	52.96%		3.02%
Common Equity	<u>47.04%</u>	8.80%	<u>4.14%</u>
Total	<u><u>100.00%</u></u>		<u><u>7.16%</u></u>

Adjusted CECONY Capital Structure
As of September 30, 2006
(\$ millions)

	C1	C2	C3	C4	C5	C6	C7	C8	C9
	CEI	CECONY	ORU	Utility	As Reported Non-Utility Operations (C1-C4)	Staff Adj Non-Utility Operations	Staff Adj Utility (9/30/06) (C1-C6)	Adj. to Refl Chgs in R.Y.	Staff Adj Utility (C7-C8)
Assets									
Utility Plant (Original Cost)	\$14,270	\$13,388	\$883	\$14,271	-\$1	\$0	\$14,270		
Electric	3,182	2,805	377	3,182	0	0	3,182		
Gas	1,676	1,676	0	1,676	0	0	1,676		
Steam	1,580	1,456	124	1,580	0	0	1,580		
General	20,708	19,325	1,384	20,709	-1	0	20,708		
Total Utility Plant	4,560	4,154	407	4,561	-1	0	4,560		
Less: Accumulated Depreciation	16,148	15,171	977	16,148	0	0	16,148		
Net Plant	1,047	1,007	40	1,047	0	0	1,047		
Construction Work in Progress	17,195	16,178	1,017	17,195	0	0	17,195		
Net Utility Plant	826	15	0	15	811	811	15		
Non-Utility Plant	18,021	16,193	1,017	17,210	811	811	17,210		
Net Plant	3,408	2,459	289	2,748	660	660	2,748		
Total Current Assets	272	3	0	3	269	269	3		
Investments	4,440	3,617	271	3,888	552	552	3,888		
Tot Def.Chgs, Reg Assets + Noncurr Assets	\$26,141	\$22,272	\$1,577	\$23,849	2,292	\$2,292	\$23,849		
Total Assets									
Capitalization and Liabilities									
Capitalization									
Common Shareholders' Equity	\$7,928	\$7,059	\$378	\$7,437	\$491	\$720	\$7,208	\$1,173	\$8,381
Preferred Stock	213	213	0	213	0	0	213	0	213
Long-term Debt	8,066	6,755	362	7,117	949	720	7,346	1,663	9,009
Total Capitalization	16,207	14,027	740	14,767	1,440	1,440	14,767		17,603
Total Noncurrent Liabilities	985	736	165	901	84	84	901		
Total Current Liabilities	3,114	2,240	340	2,580	534	534	2,580		
Total Def Credits and Regulatory Liabilities	5,794	5,269	332	5,601	193	193	5,601		
Total Capitalization and Liabilities	\$26,141	\$22,272	\$1,577	\$23,849	\$2,292	\$2,292	\$23,849		
Customer Deposit Total:	225	211	14	225	0	0	225	-10	215
(Included in Current Liabilities)									
Long-Term Debt:	49.1%	47.4%	48.0%	47.5%	65.9%	50.0%	49.00%		50.56%
Preferred Stock:	1.3%	1.5%	0.0%	1.4%	0.0%	0.0%	1.42%		1.20%
Customer Deposit:	1.4%	1.5%	1.9%	1.5%	0.0%	0.0%	1.50%		1.20%
Common Equity:	48.2%	49.6%	50.1%	49.6%	34.1%	50.0%	48.08%		47.04%

Question No. :282

In Exhibit JC1, Schedule 1, a thirteen-point average is used to determine the long-term debt balance of \$8,716,317,000 under the column heading "Average Capital Structure at September 30, 2008." The common equity balance of \$8,554,166,000 appears to be the rate year ending September 30, 2008 balance from witness Cunha's Estimated Common Equity work paper. A. Is the common equity balance of \$8,554,166,000 on Exhibit JC-1, Schedule 1, the forecasted balance at September 30, 2008? B. If so, please explain why an end of the rate year number is used for determining the average common equity balance for the rate year while a thirteen-point average is used to determine the long-term debt balance.

Response:

A. Yes.

B. Exhibit __ (JC-1) will be revised to reflect the average common equity utilizing thirteen-average during the update stage of this proceeding.

Question No. :291

In Exhibit _ (JC-1), Schedule 2, the cost rate for the 2005 Series C bond is listed as 5.51%. On page 74 of the December 31, 2005 10-K for Consolidated Edison Company of New York, Inc., the interest rate for the 2005 Series C Bond is listed at 5.375%. Is the correct cost rate for the 2005 Series C bond 5.375%? If not, please explain.

Response:

Yes, the correct cost rate for the 2005 Series C bond is 5.375%. We will incorporate the correction as part of the update phase of this proceeding.

Question No. :292

In Exhibit (JC-1), Schedule 2, there is a forecasted cost rate of 6.5% for \$500 million of debt to be issued in December 2006. How much debt was actually issued, and at what cost rate?

Response:

CECONY issued \$250 million debenture at a cost rate of 5.3% and \$250 million debenture at a cost rate of 5.7%

Consolidated Edison Company of New York, Inc. Long-Term Debt

Debt	Series	Due	Debt Outstanding 9/30/2008	Cost Rate	Average Balance 9/30/2008	Average Cost	Effective Cost Rate	
1997	Series B	12/01/07	-	6.450%	68,750	4,434	0.051%	
1998	Series A	02/01/08	-	6.250%	67,500	4,219	0.048%	
1998	Series B	02/01/28	105,000	7.100%	105,000	7,455	0.086%	
1998	Series C	07/01/08	-	6.150%	79,167	4,869	0.056%	
1998	Series D	10/01/28	75,000	6.900%	75,000	5,175	0.059%	
1999	Series B	12/01/09	200,000	7.150%	200,000	14,300	0.164%	
2000	Series A	05/01/10	325,000	8.125%	325,000	26,406	0.303%	
2000	Series B	09/01/10	300,000	7.500%	300,000	22,500	0.258%	
2002	Series A	07/01/12	300,000	5.625%	300,000	16,875	0.194%	
2002	Series B	02/01/13	500,000	4.875%	500,000	24,375	0.280%	
2003	Series A	04/01/33	175,000	5.875%	175,000	10,281	0.118%	
2003	Series B	06/15/13	200,000	3.850%	200,000	7,700	0.088%	
2003	Series C	06/15/33	200,000	5.100%	200,000	10,200	0.117%	
2004	Series A	02/01/14	200,000	4.700%	200,000	9,400	0.108%	
2004	Series B	02/01/34	200,000	5.700%	200,000	11,400	0.131%	
2004	Series C	06/15/09	275,000	4.700%	275,000	12,925	0.148%	
2005	Series A	03/01/35	350,000	5.300%	350,000	18,550	0.213%	
2005	Series B	07/01/35	125,000	5.250%	125,000	6,563	0.075%	
2005	Series C	12/01/15	350,000	5.375%	350,000	18,813	0.216%	
2006	Series A	03/15/36	400,000	5.850%	400,000	23,400	0.268%	
2006	Series B	06/15/36	400,000	6.200%	400,000	24,800	0.285%	
2006	Series C	09/15/16	400,000	5.500%	400,000	22,000	0.252%	
2006	Series D	12/01/16	250,000	5.300%	250,000	13,250	0.152%	
2006	Series E	12/01/36	250,000	5.700%	250,000	14,250	0.163%	
2007	Series A ¹	03/01/17	350,000	5.640%	350,000	19,740	0.226%	
2007	Series B ¹	06/01/37	300,000	6.020%	300,000	18,060	0.207%	
2007	Series C ¹	09/01/37	440,000	6.020%	440,000	26,488	0.304%	
2007	Series D ¹	12/01/17	650,000	5.640%	514,583	29,022	0.333%	
2008	Series A ¹	03/01/38	390,000	6.020%	211,250	12,717	0.146%	
2008	Series B ¹	09/01/18	460,000	5.640%	19,167	1,081	0.012%	
						\$7,630,417	\$441,248	5.062%

Tax Exempt Debt

1999	Series A	05/01/34	292,700	3.888%	292,700	11,381	0.131%	
2001	Series A	06/01/36	224,600	4.700%	224,600	10,556	0.121%	
2001	Series B	10/01/36	98,000	3.889%	98,000	3,811	0.044%	
2004	Series A	01/01/39	98,325	3.888%	98,325	3,823	0.044%	
2004	Series B1	05/01/32	127,225	3.888%	127,225	4,947	0.057%	
2004	Series B2	10/01/35	19,750	3.889%	19,750	768	0.009%	
2004	Series C	11/01/39	99,000	3.888%	99,000	3,849	0.044%	
2005	Series A	05/01/39	126,300	3.888%	126,300	4,911	0.056%	
						\$1,085,900	\$44,046	0.505%
Subtotal:					\$8,716,317	\$485,294	5.57%	
Amortization of Debt Expense:						\$18,319	0.21%	
TOTAL:					\$8,716,317	\$503,613	5.78%	

¹Used the spread between Moody's seasoned Aaa bond Rates at 12/1/06 and at 1/26/07. (5.53%-5.18%=.35%). .35% was added to the 10 year and 30 year ConEdNY coupon rates (5.3% & 5.7%) of issued bonds at 12/1/06.