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:

GAS CAPITAL CONSTRUCTION AND O&M
PROGRAM PANEL

Alan F. Mostek
Utility Engineer 3

Office of Gas & Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Joseph Klesin
Utility Engineer 3 (Safety)

Patrick J. Raichel
Utility Engineer 2 (Safety)

Rachel Jenkins
Utility Engineer 1 (Safety)

Office of Gas & Water
State of New York
Department of Public Service
90 Church St.
New York, NY 10007-2912

Q. Mr. Mostek, please state your full name and business address.

A. Alan F. Mostek, Three Empire State Plaza, Albany, New York 12223.

Q. By whom are you employed and in what capacity?

A. By the Department of Public Service of the State of New York as a Utility Engineer 3 on the Staff of the Office of Gas & Water in the Gas Rates Section.

Q. Please state your educational background and professional experience.

A. I have a Bachelor of Science degree in Aeronautical Engineering from Rensselaer Polytechnic Institute. In January 1978, I joined the Department of Public Service as a Junior Engineer in the former Gas Division. My responsibilities in the Gas Division included analysis of gas utility rate applications, rate design and revenue allocation proposals, as well as analysis of various other utility petitions and tariff filings, and assisting senior Staff in the review of interstate pipeline companies whose operations affected New York State.

In October 1990, I was promoted to my

present position which was reclassified as Utility Engineer 3 in March 2002.

In September, 1993, the former Gas, Power and Water Divisions of the Department of Public Service were combined into an Energy & Water Division and my position was assigned to the Cost Allocation and Rate Design Area where my duties were expanded to include review of gas, electric and water filings from the aspect of cost allocation, rate design, and other tariff related matters.

In January 1996, the former Energy & Water Division of the Department of Public Service was reorganized into a separate Electric Division and a Gas & Water Division. The Gas & Water Division was subsequently redesignated the Office of Gas & Water.

My position is currently assigned to the Gas Rates Section of the Office of Gas & Water where my responsibilities include Staff's analysis of gas utility applications for rate increases, analysis of various gas utility petitions and tariff filings, analysis of rate design and revenue allocation proposals, as well

as analysis of issues related to the restructuring of the natural gas industry in New York.

Q. Have you previously presented testimony in proceedings before the Commission?

A. Yes. I have testified in various proceedings before this Commission.

Q. Mr. Klesin, what is your position with the Department of Public Service?

A. I am a Utility Engineer 3 (Safety) assigned to the Office of Gas & Water, Safety Section in the NYC Office.

Q. Mr. Klesin, please state your education and experience.

A. I graduated from New York Institute of Technology (NYIT) in Old Westbury, NY in 1989 with a Bachelors of Technology Degree in Electro/Mechanical/Computer Technology. I joined the Department in 1990 and am currently the Supervisor of the Safety Section’s NYC office. I have oversight responsibility for four Utility Engineers and implementation responsibility for the New York Pipeline Safety Program in the New York City, Westchester and

Long Island areas.

I am responsible for organizing, scheduling, coordinating and directing the field activities of the New York City area office. The program involves comprehensive safety & reliability evaluations of downstate utilities and covers all aspects of operations, maintenance and construction of jurisdictional natural gas, liquid petroleum, liquefied natural gas and steam pipelines. I am familiar with all NYS and federal gas & liquid pipeline safety codes, including the overall operations of the major downstate gas utilities.

Q. Have you previously testified in a regulatory proceeding?

A. Yes, I have testified in two previous rate cases; Orange & Rockland Utilities cases, 99-G-1695 and 02-G-1553 and prepared testimony for the Keyspan Corporation cases, 06-M-0878, 06-G-1185 and 06-G-1186.

Q. Mr. Raichel, what is your position with the Department of Public Service?

A. I am a Utility Engineer 2 (Safety) assigned to the Office of Gas & Water, Safety Section in the

NYC Office.

Q. Mr. Raichel, please state your education and experience.

A. I graduated in June 1991, from the State University of New York at Buffalo, with a Bachelor’s of Science degree in Mechanical Engineering. I have been employed by the Department of Public Service since December of 1995. From March 1994 to December 1995 I worked for the New York State Insurance Fund as a Risk Management Representative.

I am responsible for the investigation and analysis of gas pipeline utility facilities, company standard practices and records related to system design, construction, operation and maintenance. My duties also include assuring compliance with the federal and state pipeline safety regulations that apply to gas utilities and pipeline operators. Investigation of complaints from utility customers and the public regarding pipeline safety and service issues and facilitation of the resolution between the utilities and complainants are also part of my responsibilities. Also included in my duties is

the preparation of detailed reports related to my investigations, analysis, audit findings and recommendations. Another one or my roles is to investigate natural gas, steam and carbon monoxide related incidents, and outages for determination of involvement of company facilities, compliance with the pipeline safety regulations and recommend preventive measures to eliminate or mitigate reoccurrence. I have also participated in rotation programs within the Department which has given me to opportunity to work on water and gas rate matters.

Q. Have you previously testified in a regulatory proceeding?

A. Yes, I have previously testified in the Consolidated Edison of New York gas rate case 03-G-1671.

Q. Ms. Jenkins, what is your position with the Department of Public Service?

A. I am a Utility Engineer 1 (Safety) assigned to the Office of Gas & Water, Safety Section in the NYC Office.

Q. Ms. Jenkins, please state your education and experience.

A. I graduated from The Ohio State University with a Bachelor of Engineering in Civil Engineering in 2003. I joined the Department of Public Service in 2004.

I am responsible for the investigation and analysis of gas pipeline utility facilities, company standard practices and records related to system design, construction, operation and maintenance. My duties also include assuring compliance with the federal and state pipeline safety regulations that apply to gas utilities and pipeline operators. Investigation of complaints from utility customers and the public regarding pipeline safety and service issues and facilitation of the resolution between the utilities and complainants are also part of my responsibilities. Also included in my duties is the preparation of detailed reports related to my investigations, analysis, audit findings and recommendations. Another one or my roles is to investigate natural gas, steam and carbon monoxide related incidents, and outages for violation of the pipeline safety regulations and recommend preventive measures to eliminate or

mitigate reoccurrence. I have also participated in rotation programs within the Department which has given me to opportunity to work on water and gas rate matters.

Q. Have you previously testified in a regulatory proceeding?

A. Yes, I have previously testified in the United Water New York rate case, 06-W-0131.

Q. What is the purpose of the Gas Capital Construction and O&M Program Panel (Panel) testimony in this proceeding?

A. The Panel is responsible for reviewing the company's presentation in the general areas of the gas capital construction expenditure forecast and the program changes in rate year operations & maintenance (O&M) expenses for gas operations, including rate year interference expense.

The Panel will recommend adjustments to the company's rate year forecast of rate base related to the company's gas capital construction forecast in 2008 and also the company's proposed O&M program changes for gas operations in the rate year.

Gas Capital Construction Forecast Adjustments

Q. Please explain the company's capital construction forecast presentation for gas operations?

A. In its original filing, the company's rate year average net plant was derived based on a gas capital construction forecast of $212,095,000 in 2007 and $256,701,000 in 2008 as shown in Con Edison Exhibit___ (FC-2) and the company's December 2006 Preliminary Update for the approved 2007 Capital Budget. In addition to the capital construction forecasts which directly impact the rate year, the company also presented, as noted in Exhibit___ (FC-2), annual forecasts for 2009 and 2010 as part of its three year rate proposal.

Q. What were the company's gas capital construction forecasts for 2009 and 2010?

A. According to Exhibit___ (FC-2), $267,429,000 in 2009 and $270,988,000 in 2010.

Q. Were all these gas construction expenditure forecasts approved by Con Edison's Board of Trustees?

A. No. According to the company's response to DPS

IR #2, which is submitted as Exhibit___ (GCCOP-1), the capital expenditure budget for a given calendar year is not approved by the Board until October or November, just prior to the beginning of the given year. Although the Board is presented with a 5-year capital forecast each year, only the initial year is actually approved by the Board. Therefore based on Exhibit___ (GCCOP-1), at the time of the company's initial rate case filing, the 2007 through 2010 annual capital expenditure forecasts presented by the company in the rate case were part of the 5-year capital forecast for 2007-2011 which had not yet been presented to the Board of Trustees.

Q. Has the 2007 capital expenditure forecast, as presented in the original case, been approved by the Board of Trustees?

A. No. A preliminary update to the original filing, presented by the company by email on December 14, 2006, indicates that the Board reduced the approved 2007 capital expenditures budget by $33,305,000, from $212,095,000 as filed, down to $178,790,000.

Q. Has this reduction been reflected in the

company's presentation?

A. Only preliminarily. The company indicated in its December 2006 Preliminary Update for the approved 2007 Capital Budget, that it will formally reflect this reduction to its filing in the rebuttal/update phase of the case.

Q. Could the Panel briefly describe the major categories of plant work included in the company's 2007 through 2010 gas capital construction forecasts?

A. Yes. Company witness Ciminiello notes on page 18 of testimony that gas construction expenditures are incurred primarily to address new business, system improvements and interference. Typically for forecasting purposes, each year's construction expenditure forecast is broken up into the general categories of gas distribution projects (or "GDs") which represent work that is recurring in nature and involving many individual jobs that are not budgeted on a site-specific basis, central projects including those projects related to tunnels and the company's LNG facilities, supply mains, interference work

related to work by a private entity on non-company facilities in the vicinity of company facilities, transmission & generation projects and special projects including information systems and security.

Company witness Ciminiello also indicates on page 21 of testimony that for the 2008 through 2010 capital expenditure forecasts, the company also added the category of “2008-2010 Rate Case Projects” which are new multi-year programs to improve the infrastructure of its gas system.

Q. How has the Panel analyzed the forecasts presented by the company?

A. The Panel examined the forecasts from both an overall perspective compared to historic experience as well as a project by project review of the 2008-2010 rate case projects.

Q. Why did the Panel only review the 2008-2010 rate case projects on a project by project basis?

A. Attached is Exhibit___ (GCCOP-2), which is a graph showing actual annual gas construction expenditures from 2002 through 2006 broken out by the major categories previously noted, the

approved budget for 2007 and the forecast for 2008 also broken out by similar categories.

Exhibit___ (GCCOP-2) shows that the majority of the increase in the forecast expenditures for 2008, over the approved 2007 budget and recent actual annual expenditure levels, is primarily due to the addition of the 2008-2010 Rate Case Projects. Therefore, these projects became the focus of the Panel's review.

Q. Has the company already incurred expenditures for any of these 2008-2010 Rate Case projects or included these projects in the 2007 approved budget?

A. Of the twenty four projects identified by the company as 2008-2010 Rate Case Projects in Exhibit___(FC-2), the company has incurred expenditures for only Project #1 Westside Manhattan Loop & Regulator and a portion of Project #17 New GOSS System-Cyber Security. This was confirmed in the company's response to DPS IR #42, which is submitted as Exhibit___ (GCCOP-3). Otherwise all the remaining 2008-2010 Rate Case Projects represent new projects never before forecast.

Q. Could the Panel provide a brief analysis of each of the 2008-2010 Rate Case Projects which are forecast in Con Edison Exhibit___ (FC-2) and impact the rate year in the company's filing?

A. Yes. In reference to project number 1, "Lower Manhattan Westside High Pressure Loop", the Panel has reviewed Con Edison's justifications for the proposed work and agrees that the program would be beneficial to system safety and reliability. Continuing progress to expand Con Edison's ability to serve customers in lower Manhattan with high pressure gas service makes sense given the growth and reconstruction that is expected in this area in the near future. High pressure gas service will also include an increased number of isolation valves in lower Manhattan. During the events of September 11, 2001, isolating sections of low pressure gas main in lower Manhattan often required difficult excavations because of limited isolation valves. A high pressure gas distribution network with additional isolation valves will expedite the isolation of main sections in the event of an emergency.

In reference to projects numbered 2 and 3, proposing systematic replacement of four-inch low pressure and twelve-inch medium pressure cast iron gas mains, respectively, the Panel recognizes that four-inch cast iron main is both at great risk of failure and limited in its capacity expandability. The Panel agrees that Con Edison should replace four-inch low pressure cast iron mains, prioritizing replacement sections as identified by the company's risk modeling system. However, the Panel does not agree with the company’s program for replacement of 12 inch cast iron pipe at this time. The Panel does not believe that twelve-inch medium pressure cast iron mains pose the same risk to safety and reliability. The Panel has reviewed historical statistics for main failures on Con Edison's 12-inch medium cast iron mains, including their response to DPS IR #240, which is submitted as Exhibit___ (GCCOP-4), and does not believe that the evidence supports a targeted replacement program.

In reference to project number 4, a proposal to fund a new gas main in conjunction

with work near the Grand Central Parkway, the Panel agrees that relocating the main will be necessary because of the highway work being performed by the state of New York. This transmission main serves as a critical inter-connect between the transmission systems operated by all New York City and Long Island gas operators, a network also known as the New York facilities system.

Regarding project numbers 5, 6, and 7, which consist of the installation of three new regulators, respectively, in Queens and the Bronx, the Panel has observed the residential growth cited in testimony by company witness Ciminiello. The installation of these regulators seem reasonable given the growth of the distribution network in these areas.

In reference to project number 8, "Small Main Ties Program", the Panel agrees with the objectives of this program. Providing certain redundant gas supply feeds can be a sound engineering practice which increases the reliability of a gas distribution network. However, the Panel considers this program to be

a lower priority than others proposed in this case. While the Panel could consider this type of program reasonable in the future, it is not necessary at this time.

With respect to project number 9, "Roosevelt Island Directional Drill", the Panel again agrees with the proposed objective: an East River crossing to feed Roosevelt Island. However, at this time, very little engineering and/or planning have taken place for this project. The cost of the project could vary depending on the pipeline route Con Edison chooses. Work is not slated to begin until, 2010, the third year of the company's proposed rate plan and therefore it will not impact the rate year presentation in the case. Consideration of this project should therefore occur when finalized plans are in place.

For project number 10, "Grasslands Road Upgrade", the Panel believes that the project will improve the distribution system. The project proposes a second supply line to the Hawthorne area in northern Westchester County, which would be capable of backing-up the current

supply line. The addition of the second supply line would increase the reliability of gas service to the area. Redundancy in service would alleviate the concern for disruption of service to customers due to the performance of routine or emergency maintenance, as either supply line could be capable of individually supporting the Hawthorne area under most operating conditions.

In reference to project number 11, "Randalls Island Directional Drill", the Panel believes that inclusion of this project is premature since it is still in the planning stages. Randall's Island currently has no gas service whatsoever. At this time, the Panel is unaware of any definitively planned natural gas customers on the island, either by means of new facilities or energy conversion of existing facilities. Con Edison should analyze and verify the potential for customers on Randall's Island and ensure that the most cost effective means possible is used to provide service before beginning construction on this project.

Regarding projects numbers 12, 13, and 14,

all related to a new Harlem River crossing, the Panel agrees that these installations are necessary to maintain reliable service to upper Manhattan. The current crossing of the Harlem River was installed in the early 1900's and is now in a deteriorating state. The bulkhead landing is at risk due to its proximity to third party structures and operations and lack of accessibility. The proposed replacement also will bring high pressure gas supply from the Bronx, increasing the potential for future load growth without the need for additional supply projects. Reliability of high pressure service to upper Manhattan will also be enhanced by the addition of this crossing. Upper Manhattan will now be served by two high pressure gas supply lines, creating redundancy.

In reference to projects number 15 and number 18, proposing a liquefaction system replacement and other upgrades to the LNG plant in Astoria, Queens, the Panel believes that given the age of the plant, and because it is an important asset to service reliability, these upgrades are appropriate.

With respect to project number 16, "Tunnel Projects", the Panel believes the necessity for backup power for tunnel operations is reasonable. Con Edison's tunnels house critical assets, vital to their gas distribution network, and these critical facilities must be protected. The tunnels require electric service to operate sump pumps. Flooding in the tunnels, which would occur during a power outage, would threaten the integrity of the natural gas piping within the tunnel. Electricity is also required to operate lighting in the tunnels as well as critical gas sensing equipment and alarms. The company’s assumption that during a major emergency, such as a hurricane, obtaining generators from an outside vendor may be a difficult, if not an impossible task, further supports the reasonableness of this project.

In reference to project number 17, "Information Resources Projects”, project number 19, "Corporate Warehouse” and project number 20, "Corporate Security Monitoring", the Panel does not oppose these projects.

Regarding project number 21, "Westchester

Inner/Outer Loop", the Panel agrees that some additional main installation in Westchester County on Con Edison's medium pressure system will add to reliability and greater service potential in the area. However, expenditures targeted towards new main installation, rather than the company’s proposed main replacement approach, is a more reasonable alternative.

In reference to project number 22, "Distribution Integrity Integration", the Panel does not believe any expenditure on distribution integrity management is prudent at this time, given that no legislation demanding these programs is in effect. Typically pipeline safety laws allow for a window in which natural gas distributors can plan for compliance measures. The Panel believes these measures can be considered in future rate cases, if distribution integrity management rules become effective.

Regarding project number 23, "Westchester/Bronx Border to White Plains", which consists of the addition of a 30-inch steel transmission main to provide additional

supply from the Westchester area to New York City, the Panel believes that the project is beneficial to the safety and reliability of Con Edison's gas transmission system. The current 24-inch coupled cast iron transmission main is deteriorating and pressure should be reduced in the near future in order to continue safe operation of the gas main. The line was installed in 1951 and has experienced several leaks in recent years, including corrosion leaks near the couplings.

With respect to project number 24, "Houston St. Manifold Replacement", the Panel is aware of the condition of the manifold piping on Houston Street based upon past auditing activities and field observations. Because of the layout of the manifold there is also a greater risk for third party damage. The Panel therefore believes that replacement is necessary.

Q. Since the Panel has indicated general support for the majority of these 2008-2010 Rate Case Projects, does that indicate agreement with the company’s 2008 forecast gas construction expenditure level?

A. No. As mentioned before, the Panel also reviewed the company's presentation from an overall perspective compared to historic experience. Attached is Exhibit___(GCCOP-5) which shows a graph of total actual annual gas construction expenditures compared to approved budget for the last ten years, 1997 through 2006, the approved budget for 2007, and the originally filed rate case forecast budgets for 2007 and 2008. Exhibit___ (GCCOP-5) shows that the proposed 2008 rate case forecast is on average 45% higher than the construction budgets approved by the company's Board over the last three years and 40% higher than actual annual construction expenditures in 2005 and 2006. In addition and as previously mentioned, the Board also most recently reduced the proposed 2007 rate case forecast by over $33 million, or 15.7%, down to approximately $179 million, which is a level that is in line with recent years approved budgets as well as recent actual expenditures.

Q. What then is the Panel's proposal regarding the 2008 construction expenditure forecast for

ratemaking purposes?

A. The Panel believes that the Board's reduction of the 2007 rate case construction expenditure forecast by about 15.7% represents a reasonable indication that some of the proposed rate case projects in 2008 are premature and will not be included in the 2008 approved budget. Therefore, the Panel has also adjusted the filed 2008 rate case construction forecast of $257 million by 15.7%, or approximately $40 million, down to $216 million. This Panel forecast level is also shown on Exhibit___ (GCCOP-5) for comparison purposes. The impact of the Panel's reduction in the 2008 construction forecast is that the company's rate year net plant should be reduced by approximately $8.1 million and the rate year depreciation expense should be reduced by approximately $159,000.

Q. Doesn't the recommended construction expenditure forecast level conflict with the results of the Panel's review of the individual 2008-2010 rate case projects?

A. Although the Panel supports the completion of many of these projects, the actions of the Board

with regard to the 2007 construction expenditure budget also cannot be ignored and therefore the possibility of some of these projects being scheduled for completion beyond the rate year in this case must be a consideration.

Q. How does the Panel recommend resolving the potential delay in completion of some of these projects?

A. The Panel recommends that to the extent any of the 2008-2010 rate case projects are completed in 2008 and create incremental expenditures, which in and of themselves cause annual expenditures to exceed the overall Staff forecast, the company will be allowed to defer for recovery the carrying costs on the increased net plant associated with those incremental expenditures. In order to qualify for this treatment, and for tracking purposes, each 2008-2010 rate case project must be identified with a project number as described in Exhibit A to the Capital Budget Process provided in response to DPS IR # 4, which is submitted as Exhibit___ (GCCOP-6). These project numbers will be provided to Staff at the time of compliance with

the final Commission order in this case.

In addition, the recovery of incremental carrying charges associated with the increased net plant will be capped based on the 2008 construction expenditure forecast of $257 million originally presented by the company in the case. To the extent total actual construction expenditures in 2008 falls below the Staff forecast, the company will also defer the associated carrying costs owed to customers on the reduced net plant associated with the under expenditure including interest.

Gas Operations O&M Program Changes

Q. Please explain the company's presentation for rate year Gas Operations O&M program changes?

A. As stated in Con Edison witness Ciminiello's testimony pages 6 through 18, and their prefiled Exhibit___ (FC-1), the company forecast incremental gas operations O&M program changes consisting of ten projects in the rate year. These ten O&M program changes increased overall O&M expenses by approximately $10 million. Mr. Ciminiello also requests on page 17 of his testimony an annual true-up mechanism for these

program changes, as well as, for any new initiatives which could result in additional O&M requirements in the company's gas operations.

Q. Has the Panel reviewed the program changes proposed by the company in Exhibit___ (FC-1) and are you recommending adjustments to those program changes?

A. Yes, we have. In reference to project number 1 listed on Con Edison Exhibit___ (FC-1), "Increase Main Valve Inspections & Repairs", the Panel believes that these programs would be beneficial to system safety and reliability. Under current O&M procedure, Con Edison inspects local isolation valves at ten year intervals, inspecting approximately 1,056 a year. In 2006, 36 percent of the inspections performed on local isolation valves uncovered faults. Con Edison reported in its response to DPS IR # 134, which is submitted as Exhibit___ (GCCOP-7), that of the 376 faults in 2006, nearly half were valves which could not be located or were paved over. Quick accessibility to isolation valves can be critical in certain emergency situations and the Panel is concerned about the large number of

inaccessible isolation valves. Accelerating the inspection program should increase the safety of the gas delivery system.

Regarding project number 2, "Atmospheric Corrosion Control", the Panel has discovered that according to the company response to DPS IR # 233, which is submitted as Exhibit___ (GCCOP-8), portions of the piping in need of rehabilitation are jurisdictional under Parts 255.479 and 255.481 of pipeline safety code. These sections of pipeline safety code require that gas piping exposed to atmospheric conditions be protected from corrosion and that they be inspected every three years. Atmospheric corrosion inspections on jurisdictional pipeline are covered by Con Edison O&M procedures already in place. The jurisdictional piping at this location should have been maintained under their current O&M procedures and therefore the company has not provided any justification for increased spending for atmospheric corrosion. In addition, for the non-jurisdictional piping at this location, the Panel’s position is that rate

payers should not be responsible for the costs associated with and for the maintenance of customer owned piping. Accordingly we have reduced O&M expense by $1.7 million, the amount associated with this program change in the rate year.

With respect to project number 3, "Transmission Main Maintenance", the Panel is concerned that the coupling-sleeve installations are costly and may not be immediately necessary. Con Edison has been receiving Canadian gas at the Hunts Point Gate through the Iroquois Pipeline Eastchester extension since 2004. According to Company witness Ciminiello's testimony, pages 8-9, Con Edison is speculating that an anticipated significant increase in delivery of drier Canadian gas associated with the completion of the Millennium Pipeline, scheduled for late in 2008, will cause seals in the buried compression couplings to shrink, resulting in leakage. To address these potential problems, the Panel recommends that the company be allowed to defer the costs of the coupling-sleeve installation program on the company's 24"

transmission mains subject to the following conditions. But, as shown by the response to DPS IR # 229 submitted as Exhibit___ (GCCOP-10), the company has not been able to provide any local operating history to support their claim that leaks will occur at the pipeline joints as a result of a drier gas supply. Therefore we have reduced O&M expense by $2.26 million, the amount associated with this program change in the rate year. As further experience is gained, the Panel believes measures similar to those proposed by the Company could be considered in future rate cases and the Panel believes that Con Edison should undertake a technical study and analysis of the particular couplings in its pipelines to determine if coupling degradation related to increased supplies of drier gas could reasonably be expected to occur and result in leakage. The results of the analysis should be formally reported to the Commission. If the analysis indicates a reasonable expectation of potential problems, and the Commission concurs with the findings, then the coupling remediation project will be funded.

In reference to project number 4, "Pressure Control Programs", the Panel believes that the operating history of remote operated valves (ROVs) supports the proposed maintenance project. The Panel also agrees that additional maintenance is necessary to improve regulator manhole assets. In response to gas safety Staff field audits in 2003, which found problems with the conditions of regulator manhole conditions, Con Edison improved their regulator manhole inspection and repair process.

At the time when many of Con Edison's regulator stations were initially installed, an alternate path for gas to travel was installed parallel to the regulator station. High and low pressures were separated along the parallel bypass by a single valve. The length of this bypass piping varies from approximately 65 to 85 feet. The bypasses were originally a necessary safety measure, but the regulator stations have since been modified to eliminate the need for the bypass runs. Con Edison has proposed abandoning the valve and it's immediately connected piping, a process which can take place

within one excavation. The Panel recommends removing regulator bypass valves, as the valves are often inaccessible and non-operational, and inadvertent operation of these bypass valves could result in over pressurization of distribution gas main. However, the method of removal proposed by Con Edison does not appear to eliminate all safety hazards. The company stated in response to Staff IR # 140, which is submitted as Exhibit___ (GCCOP-10), that after the valve is abandoned, most of the bypass piping will remain energized with gas. The Panel believes a better option would be to abandon the entire length of bypass pipe. The pipe serves no purpose, as no gas service lines are tied into the pipe. The pipe would need to continually be maintained and cathodically protected. Maintenance involved with these designs would include leak surveys and pipeline mark-outs. Also, safety Staff's experience has shown that gas mains which branch unexpectedly are particularly susceptible to third party damage. For the aforementioned reasons, the Panel believes the abandonment of the entire

length of bypass piping should also occur as part of the bypass valve removal.

Regarding project number 5, "Tunnel Programs", the Panel’s view is that two of the proposed programs are reasonable and beneficial: Project number 5b) - replacements of gas sensors, alarms and Project number 5c) - notification panels and the replacement of concrete support pedestals and roller assemblies. The new gas sensors will incorporate new technology which will increase their effectiveness. The concrete support pedestals and roller assemblies are aging and in need of repair. However, the Panel believes that Con Edison's proposal to remove coatings on the gas mains in the tunnel annually is overly conservative. Con Edison's current O&M manual requires inspection of the piping within the tunnel every three years and repair or replacement of coating as needed. Con Edison has not demonstrated that the coating necessitates repair or replacement more frequently than every three years. Therefore, the Panel sees no need to increase inspection

efforts. The Panel is also unaware of any recent history of increasing corrosion in the tunnels. Accordingly we have reduced O&M expense by $135,000, the amount associated with the program change to perform annual coating removal and recoating of gas mains in the company’s tunnels in the rate year.

With respect to project number 6, "LNG Programs", the Panel agrees to the proposed improvements. Con Edison's LNG plant has reached an age where many systems have reached the end of their viable work life. The Panel feels that investing in the plant at this time will likely result in greater reliability of service and possibly decreased capacity cost.

With regard to project number 7, "Southern Manhattan CI Joint Sealing Project", the Panel believes that joint sealing in southern Manhattan could be beneficial, but only on larger diameter piping, and only in cases where construction is definitively planned in close proximity to cast iron mains. In practice, third party encroachment on smaller diameter cast iron gas mains ultimately results in the

replacement of that piping under 16 NYCRR Part 255, so joint sealing on smaller diameter mains would be inefficient. However, the company has not provided any evidence of definitive construction plans in lower Manhattan that would affect the integrity of cast iron gas mains. Accordingly we have reduced O&M expense by $55,000 the amount associated with this program change related to joint sealing on cast iron mains smaller than 8” in the rate year.

In reference to project number 8, "Hurricane Preparedness", the Panel agrees that safety guards installed on certain regulator vents would increase the safety of customers by protecting the regulator from water infiltration in case of flooding. In some cases, water on the vent side of the regulator could cause over-pressurization of house piping. However, the Panel does not see the installation of these regulator check valves as an urgent need, since Con Edison has not provided any operating history to support their use. Thus, the Panel recommends that they be installed gradually as Con Edison performs standard inspections and/or

maintenance at the regulator location. Installation in conjunction with other required maintenance would also reduce the labor cost associated with these installations. Accordingly we have reduced O&M expense by $93,000, the labor cost associated with this regulator check valve replacement program change in the rate year. The Panel does not oppose the further study of Hurricane preparedness proposed by the company.

Regarding project number 9, "Cast Iron Maintenance Programs Associated with Capital", the Panel agrees that there will be certain maintenance costs associated with the cast iron replacement programs proposed under Con Edison's capital projects. However, the Panel only recommends allowing the costs associated with the four-inch low pressure cast iron program ($238,000 in 2008) and not the costs associated with the twelve-inch medium pressure cast iron program ($495,000 in 2008). This is consistent with our previous discussion of the related capital project number 2 and number 3.

With regard to project number 10,

"Information Resource Maintenance Associated with Capital", the Panel does not oppose this program change.

Q. Does the Panel support the company proposal that a true-up on these O&M program changes be allowed?

A. Not as requested by the company. The costs of these program changes are completely within the control of the company and therefore there does not appear to be a reasonable basis to warrant a true-up of any new initiative which may arise. The company is responsible to manage O&M costs as required to complete all necessary O&M work. However, in order to insure that the program changes supported by the Panel are pursued by the company as requested, we recommend that the company be required to track expenses incurred on each of these Panel supported program changes. Further, to the extent the forecast expenses related to the Panel supported program changes do not occur, or are delayed beyond the rate year, the company should defer amounts not spent as dollar amounts owed rate payers including interest.

Interference

Q. Has the Panel reviewed the company's proposed rate year O&M expense for interference work associated with third party construction which affects company gas facilities?

A. Yes, we have. The company proposed a rate year interference expense of approximately $16 million, excluding company labor. The company has also proposed to continue the existing true-up of these interference expenses, except that the current 2.5% dead band should be removed as noted on page 20 of witness Gencarelli's testimony and pages 12-13 of witness Rasmussen's testimony.

Q. Does the Panel agree with the company's proposals for interference expense?

A. The Panel believes that the level of interference expense forecast by the company is reasonable given the level of city construction used to develop the rate year forecast. We also agree that since interference work is substantially outside of the company's control, a true-up of costs is reasonable. However, we do not believe that the existing 2.5% dead band

in the true-up mechanism should be eliminated. The 2.5% dead band before the forecast interference expense is trued up was adopted by the Commission in the company's last rate case, Case 03-G-1671, Order Adopting Terms of a Joint Proposal, issued and effective September 27, 2004. The Panel believes the dead band was established to limit true-ups where changes from the forecast levels were minimal. The company has not provided a basis to revise the existing Commission adopted provisions and therefore we believe it should continue.

Q. Does this conclude your testimony at this time?

A. Yes, it does.

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 Exhibits of:

GAS CAPITAL CONSTRUCTION AND O&M
PROGRAM PANEL

Alan F. Mostek
Utility Engineer 3

Office of Gas & Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Joseph Klesin
Utility Engineer 3 (Safety)

Patrick J. Raichel
Utility Engineer 2 (Safety)

Rachel Jenkins
Utility Engineer 1 (Safety)

Office of Gas & Water
State of New York
Department of Public Service
90 Church St.
New York, NY 10007-2912

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

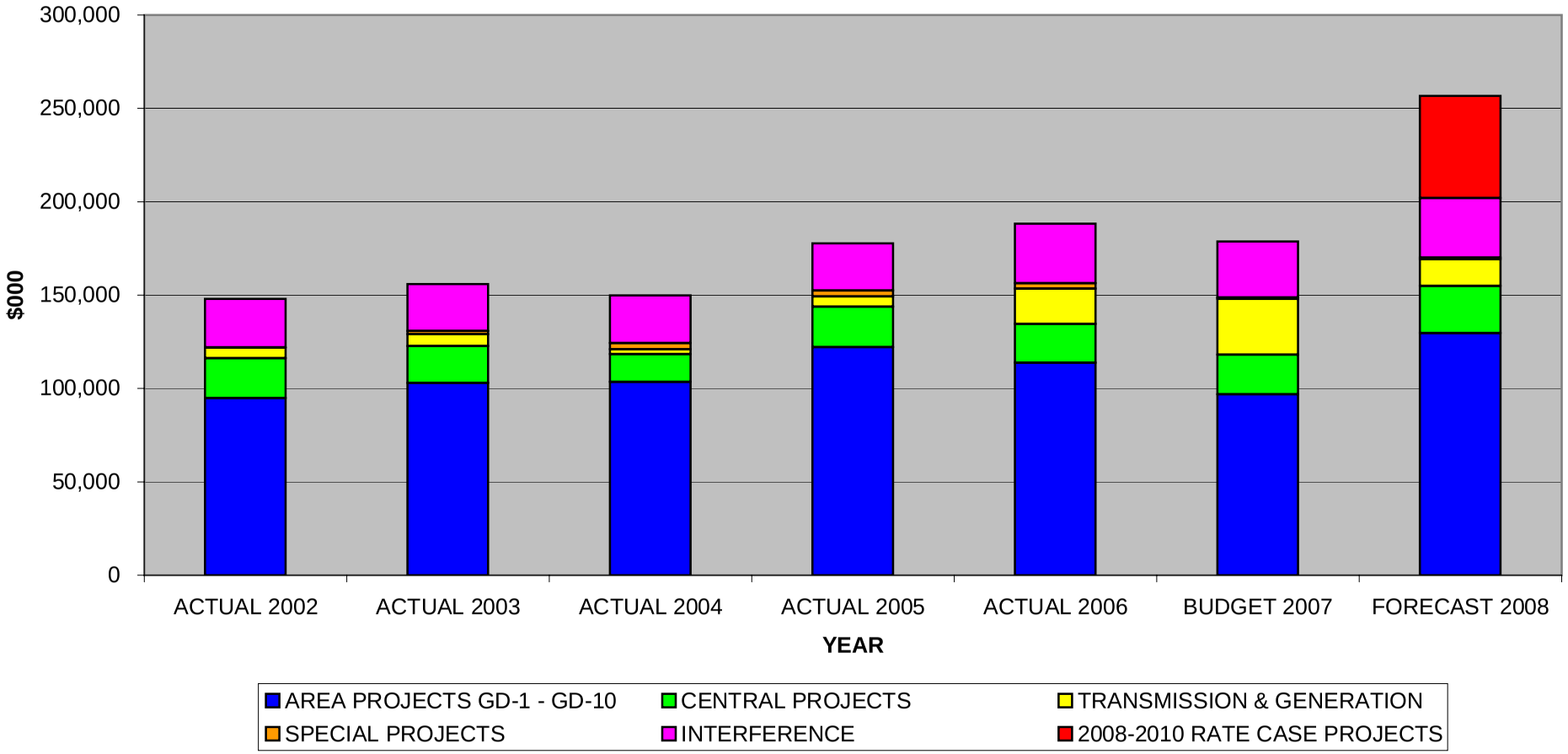
Response to DPS Interrogatories – Set Staff1
Date of Response: 12/08/2006
Responding Witness: Frank Ciminiello

Question No. :2
Referring to Exhibit FC-2, Please indicate whether the annual capital expenditure programs for 2008, 2009, and 2010 shown on Exhibit FC-2 represent the annual capital budgets for 2008, 2009 and 2010 approved by Company management.

Response:

The annual Capital expenditure programs for 2008, 2009 and 2010 on exhibit FC-2 are part of the Company's 5-year Capital forecast for 2007-2011. The 2008, 2009 and 2010 Capital budgets would be approved by Senior Management and the Board of Trustees in October and November 2007, 2008 and 2009, respectively.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
ANNUAL CONSTRUCTION EXPENDITURES DETAIL



	ACTUAL 2002	ACTUAL 2003	ACTUAL 2004	ACTUAL 2005	ACTUAL 2006	BUDGET 2007	FORECAST 2008
	$000	$000	$000	$000	$000	$000	$000
AREA PROJECTS GD-1 - GD-10	94,890	102,958	103,549	122,113	113,710	96,920	129,575
CENTRAL PROJECTS	21,312	19,774	14,881	21,638	20,907	21,180	25,385
TRANSMISSION & GENERATION	5,696	6,380	2,613	5,599	18,865	29,850	14,220
SPECIAL PROJECTS	101	1,681	3,278	3,166	2,906	800	850
INTERFERENCE	25,923	25,140	25,517	25,165	31,890	30,040	32,000
2008-2010 RATE CASE PROJECTS	0	0	0	0	0	0	54,671
TOTAL BUDGET	147,922	155,933	149,838	177,681	188,278	178,790	256,701

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

Response to DPS Interrogatories – Set Staff3
Date of Response: 12/21/2006
Responding Witness: Ciminiello

Question No. :42
Referring to Exhibit FC-2, 2008-2010 Rate Case Projects, for projects # 1 through #24, please identify: which projects are already in progress the expenditures to date for those projects by year.

Response:

a) Project 17 – New Goss System-Cyber Security
Project 1 – Westside Manhattan Loop & Regulator

b)

New Goss System-Cyber Security	$4,000
Westside Manhattan Loop & Regulator	$1,439,000

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

Response to DPS Interrogatories – Set Staff13
Date of Response: 02/06/2007
Responding Witness: Ciminiello

Question No. :240
In reference to the proposed "Cast Iron Programs Maintenance Associated with Capital," how many main breaks were experienced on both 4-inch low pressure and 12-inch medium pressure mains in 2003, 2004, 2005, and 2006?

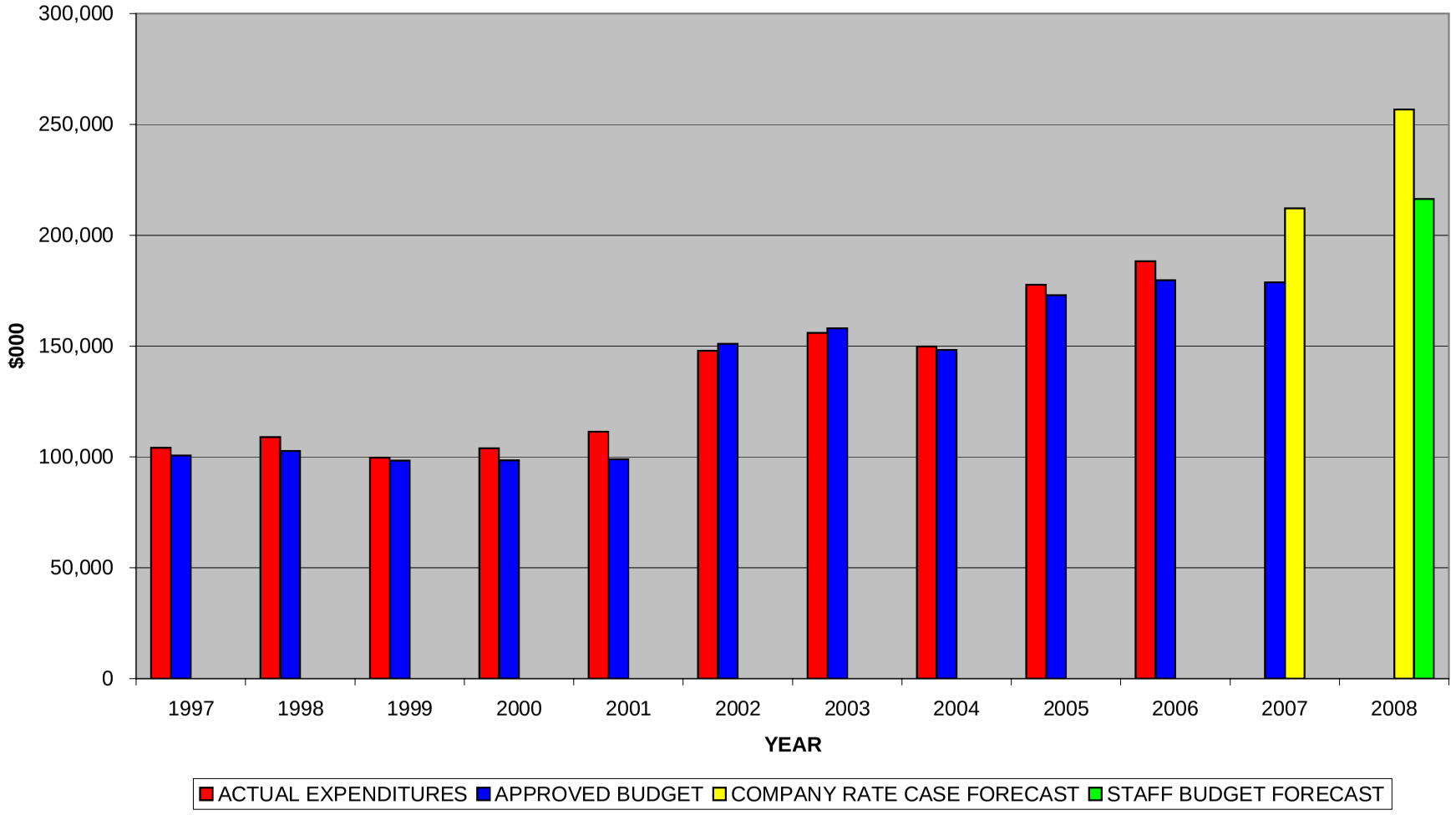
Response:

The following is the number of CI breaks per year for 4" LP and 12" MP CI mains.

	2003	**2004**	**2005**	**2006**
4" LP CI	51	91	45	19
12" MP CI	0	3	0	1

Please note historical data indicates that the break or crack frequency rate of 4" CI is comparatively higher in 4" diameter pipe than other sizes. Also, a comparison of loss of gas from a 12" medium pressure CI main is four times greater than for the same size main on low pressure. It is for these reasons; we are submitting these program change requests.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
CAPITAL CONSTRUCTION BUDGETS - TOTAL GAS OPERATIONS
BUDGET VS ACTUAL



	1997 $000	1998 $000	1999 $000	2000 $000	2001 $000	2002 $000	2003 $000	2004 $000	2005 $000	2006 $000	2007 $000	2008 $000
ACTUAL	104,113	108,958	99,738	103,866	111,336	147,922	155,933	149,838	177,681	188,278		
BUDGET	100,700	102,700	98,300	98,500	99,000	151,000	158,000	148,220	173,020	179,693	178,790	
CO. RATE CASE FORECAST											212,095	256,701
STAFF FORECAST												216,399

SUBJECT

CAPITAL BUDGET PROCESS

EXHIBIT A

PATTERN FOR CAPITAL BUDGET REFERENCE NUMBER

1.1 Program Glossary

Program	Symbol
Electric Production Plants	EP
Electric Substations	ES
Electric Transmission	ET
Electric Distribution	ED
Gas Storage	GS
Gas Transmission or Distribution	GD
Tunnel Facilities	TF
Steam Production Plants	SP
Steam Distribution	SD
Real Estate	RE
Research and Development	RD
General Equipment	XM
Building and Yards:	
Central	XC
Electric/Customer Operations	XB
Environmental	XC

1.2 General Description and Use

a. Individual Line Items (Projects) in the Capital Budget are numbered consecutively with the last digit of the Budget year appearing first.

Example: 3EP0100, 3EP0200, 3EP0300, etc. In this example, the prefix 3 represents the year 03, EP is the program symbol for Electric Production Plants; and suffix digit (0100, 0200, 0300, etc.) represents the order of appearance.

b. Composite Line Items are also numbered consecutively (represented by the last two suffix digits) but include either 98 or 97 as the first two suffix digits.

Example: 3EP9802
3EP9702

(1) The suffix 98 represents composite Line Items for projects estimated to cost less than $5,000,000 but more than $1,000,000.

(2) The suffix 97 represents composite Line Items for projects estimated to cost less than $1,000,000.

b. The project numbering pattern is the same for all programs except Electric, Gas, and Steam Distribution Programs (ED1, GD1 and SD1). The last digit for these budget reference numbers must end with a 1; i.e., 3ED7391, 3GD0031, 3SD8121.

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

Response to DPS Interrogatories – Set Staff9
Date of Response: 01/23/2007
Responding Witness: Ciminiello

Question No. :134
Referring to Exhibit FC-1, and associated workpapers, for O&M project #1, Increase Main Valve Inspection Program: a) Please indicate the actual number of main valve faults encountered in 2003, 2004, 2005 and 2006 to date. b) Please indicate the total expenses to repair these main valve faults in 2003, 2004, 2005, and 2006 to date. c) Please provide workpapers explaining the derivation of the anticipated number of repairs and the estimated per unit cost to repair. d) Please indicate the number main valves replaced, as opposed to repaired, in 2003, 2004, 2005 and 2006 to date and the cost in each year.

Response:

a) For all work done on valves, either local or sectionalized, the following amounts of faults were found:

2003 - 311
2004 - 400
2005 - 628
2006 - 716

b) For all work done on all valves, including, among others, either local or sectionalized or regraded valves, the following costs apply:
2003 - $470,518
2004 - $1,813,626
2005 - $3,278,794
2006 - $3,110,980

c)

System Local Isolation Valves as of 4/28/06	10,557
Inspections/Yr @ 10 YR Program	1056
Inspections/Yr @ 5 YR	2111

Program

Incremental Inspections/Yr @ 5 YR		1056
2006 Historical Year System Main Valve Inspection Unit Cost	$	139
2006 Historical Year System Main Valve Fault Repair Unit Cost	$	1,901
2006 Historical Year Faults Repaired on Local Isolation Valves		376
% Faults Found on Local Isolation Inspections		36%

Rate Case Year	**2008**	**2009**	**20103 Yr Total**
Incremental Inspection Costs @ 5 Yr Program	$ 146,742	$ 146,742	$ 146,742 $ 440,227
Est. Faults @ 36% Historical	376	376	376
Incremental Fault Repair Costs @ 5 Yr Program	$ 714,776	$ 714,776	$ 714,776 $2,144,328
Total Incremental Costs	**$ 861,518**	**$ 861,518**	**$ 861,518 $2,584,555**

.

Notes:

1) The majority of main valves are located in Westchester and Queens. The 648 of the 699 system distribution main valve faults found in these areas during the Historic Year were used in calculating projected fault repair costs.
2) Main valve fault repair costs for Westchester and Queens Historical Test Year = $1,232,131.
3 Estimated typical main valve fault repair unit cost= $1,232,131 / 648 = $1,901 ea.

4) 376 of the 699 main valve faults found during Historic Year were on local isolation valves.
5 % Faults anticipated on local isolation valve inspections = 376/1056 = 36%

d) The Company does not track the number of valves repaired or replaced. To provide this information would require a study, which the Company is not obligated to perform.

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

Response to DPS Interrogatories – Set Staff13
Date of Response: 02/06/2007
Responding Witness: Ciminiello

Question No. :233
In reference to the "Atmospheric Corrosion Control" rehabilitation project, is the piping requiring rehabilitation considered jurisdictional under the requirements of NYCRR Part 255, and therefore subject to the atmospheric corrosion control requirements of NYCRR Parts 255.479 and 255.481? If not, please explain the justification for use of rate O&M funds to maintain customer owned piping.

Response:

The "Atmospheric Corrosion Control' rehabilitation project contains piping that is upstream of the customer's meter as well as piping downstream of the meter. Therefore, some sections are considered under the jurisdictional requirements of NYCRR Part 255.

For those sections not under the jurisdictional requirements of NYCRR Part 255: As previously explained, under Con Edison's divesture agreements with these plants, Con Edison is required to maintain the gas piping up to the building wall of the generating facility and shall be reimbursed by the generators for a portion of its reasonable costs.

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

Response to DPS Interrogatories – Set Staff13
Date of Response: 02/06/2007
Responding Witness: Ciminiello

Question No. :229
In reference to the proposed "Transmission Main Maintenance," has the company experienced an increase in the number of leaks on buried compression couplings since the introduction of Canadian gas to the transmission system? Please provide the number of leaks, on compression couplings for 2003, 2004, 2005, and 2006, by type and operating area.

Response:

Con Edison experienced two leaks on buried compression couplings in 2006, on Dresser Style 38 couplings (steel to steel) in the southern portion of the Bronx. We have no record of any leaks on buried compression couplings for the 2003-2005 time period. As indicated in the testimony, the reason for this program is the anticipated increase in Canadian Gas to the Company at the Hunts Point Gate.

Company Name: Con Edison
Case Description: Rate Filing
Case: 06-G-1332

Response to DPS Interrogatories – Set Staff9
Date of Response: 01/23/2007
Responding Witness: Ciminiello

Question No. :140
Referring to Exhibit FC-1, and associated workpapers, for O&M project #4, Pressure Control Programs: a) Please provide the actual number of bi-pass valves eliminated annually in 2003, 2004, 2005 and 2006 to date. b) The actual annual total cost of any bi-pass valve eliminations completed in 2003, 2004, 3005 and 2006 to date. c. Please explain why these bi-pass valve eliminations would not be considered a retirement of a capital asset rather than an O&M maintenance item.

Response:

a) No bypass valves were eliminated during 2003-2006.

b) Since no valves were eliminated, no costs were incurred.

c) We anticipate the asset retirements associated with each by-pass valve elimination will be less than 15 feet and therefore considered to be minor items of property. As such, it is considered O&M.