

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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

Case 06-G-1332

March 2007

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Prepared Testimony of:

GAS RATES PANEL

Aric J. Rider  
Utility Engineer 2  
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Three Empire State Plaza  
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William D. Wade  
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1 Q. Mr. Rider, please state your full name and  
2 business address.

3 A. Aric J. Rider, Three Empire State Plaza, Albany,  
4 New York 12223.

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

6 A. I am a Utility Engineer 2, currently assigned to  
7 the Gas Rates Section of the Office of Gas and  
8 Water of the New York State Department of Public  
9 Service.

10 Q. Please provide a summary of your educational and  
11 professional experience.

12 A. I hold a Bachelor of Science Degree in Civil  
13 Engineering Technology, which I received in 2001  
14 from the State University of New York Institute  
15 of Technology at Utica/Rome. I am currently  
16 pursuing a Masters in Business Administration at  
17 the University at Albany. Within the Office of  
18 Gas and Water, I currently work in the Gas Rates  
19 Section, but have been assigned to the Gas  
20 Safety Section and Gas Policy Section on a  
21 rotational basis. My work involves the  
22 engineering analysis of gas utility operations

1 as they relate to the ratemaking process, as  
2 well as participating in various reviews of  
3 local distribution companies, or LDC,  
4 activities.

5 Q. Have you previously testified in proceedings  
6 before the Commission?

7 A. Yes. I have testified in several proceedings  
8 before the New York State Public Service  
9 Commission regarding cost of service, capital  
10 expenditures, depreciation, sales forecasts,  
11 rate design, and gas safety performance  
12 mechanisms.

13 Q. Please state your full name and business  
14 address, Mr. Wade.

15 A. William D. Wade, Three Empire State Plaza,  
16 Albany, New York 12223.

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

18 A. I am employed by the New York State Department  
19 of Public Service. I am an engineer in the Gas  
20 Rates Section of the Office of Gas and Water.

21 Q. Please state your educational history and work  
22 experience.

1 A. I graduated summa cum laude from Union College,  
2 Schenectady, New York with a Bachelor of Science  
3 degree in Civil Engineering in 1979. I also  
4 received a Master of Engineering degree from  
5 Union College in 1983 and a Bachelor of Arts  
6 degree in Secondary Education from Trinity  
7 College, Burlington, Vermont, in 1990. I joined  
8 the Department of Public Service in 2003, coming  
9 from the New York Department of Transportation  
10 where I held a civil engineering position. My  
11 work experience includes sixteen years in  
12 engineering, seven and a half years in business,  
13 and three and a half years in education. My  
14 engineering experience includes project,  
15 facilities, process, and quality engineering  
16 positions with General Electric and IBM. My  
17 business experience was with MKW Enterprise  
18 Incorporated, a specialty valve supply company  
19 that I co-founded in 1992 and sold in 1999. At  
20 MKW, I oversaw the day to day operations and was  
21 responsible for the company's finances and  
22 accounting. My educational experience involved

1 teaching mathematics and engineering to students  
2 at both the high school and college level. My  
3 responsibilities with the Department of Public  
4 Service have been the analysis of various  
5 regulatory concerns, including rate design, the  
6 forecast of gas delivery volumes and revenues,  
7 and depreciation rates.

8 Q. Have you testified before the Commission in  
9 other proceedings?

10 A. Yes. I testified with respect to rate design,  
11 sales and revenue forecasts, and depreciation  
12 rates in Cases 03-G-1671, 04-G-1047, 05-G-0935,  
13 and 05-G-1494.

14 Q. What is the purpose of the Gas Rates Panel's  
15 testimony in this proceeding?

16 A. We are responsible for the review of  
17 Consolidated Edison of New York, Inc. ("Con  
18 Edison" or the "Company") filed gas rate  
19 presentation in the general areas of sales  
20 forecast, revenue forecast, revenue allocation,  
21 rate design, unbundling, non-firm revenues,  
22 depreciation, recovery of interruptible plant,

1 lost and unaccounted for gas, and the gas  
2 conversion program. The Panel will recommend:  
3 (1) adjustments to the sales forecast concerning  
4 water normalization and weather normalization,  
5 (2) that Con Edison revise its monthly operating  
6 and financial reports, (3) creation of a  
7 customer forecast, (4) changes to the unbundling  
8 of the gas supply, gas delivery, and the billing  
9 charge, (5) modification of the rate year  
10 revenue forecast and rate design, (6) revision  
11 of the non-firm revenues subject to sharing  
12 between the company and ratepayers, (7)  
13 continuation of the present book depreciation  
14 rates with resultant adjustment to depreciation  
15 expense in the company's filing, (8)  
16 continuation of current recovery of  
17 interruptible plant and discontinuance of  
18 current method for accelerated recovery of new  
19 interruptible plant, (9) proposal of a lost and  
20 unaccounted for gas factor, and (10) elimination  
21 of the gas conversion program.

22 Q. Are you sponsoring any exhibits?

- 1 A. Yes, we are sponsoring 6 exhibits. They are:
- 2 • Exhibit\_\_\_\_(GRP-1)Bills to Customers Comparison
  - 3 • Exhibit\_\_\_\_(GRP-2)Summary of Staff Sales Adjustments
  - 4 • Exhibit\_\_\_\_(GRP-3)Staff Customers Forecast
  - 5 • Exhibit\_\_\_\_(GRP-4)Projected and Historic Customer Growth
  - 6 • Exhibit\_\_\_\_(GRP-5)Impact of NYCHA as Firm Customer
  - 7 • Exhibit\_\_\_\_(GRP-6)Rate Year Billing Determinants

8 Q. Has the company proposed a three year rate plan  
9 in this proceeding?

10 A. Yes, but our testimony only addresses a one year  
11 rate plan.

12 Sales Forecast

13 Q. Could you briefly explain how the company  
14 prepared its sales forecast?

15 A. Yes. The company began with the actual sales  
16 for the test year, July 2005 through June 2006.  
17 These sales were then normalized for weather and  
18 water temperatures, and annualized for customer  
19 changes due to new business. The company then  
20 adjusted the volumes for billing and schedule  
21 adjustments to obtain a base estimate. The

- 1 sales forecast for the rate year ending  
2 September 2008 was achieved by making  
3 adjustments to the base estimate to account for  
4 sales changes between the test year and rate  
5 year due to new business, transfer of firm  
6 customers to interruptible service, conservation  
7 and attrition, employment, and price elasticity.
- 8 Q. Does the Panel recommend adjustments to the  
9 company's sales forecast?
- 10 A. Yes. We are proposing to (1) eliminate the  
11 company's water normalization adjustment, (2)  
12 modify the weather normalization adjustment, (3)  
13 use customer data in lieu of bills for the  
14 weather normalization adjustment, (4) create a  
15 customer forecast, and (4) reflect the migration  
16 of the New York City Housing Authority (NYCHA)  
17 accounts to firm sales service. The total  
18 impact on the forecasted sales volumes for the  
19 rate year is an increase of 7,109 thousand  
20 dekatherms (Mdt).
- 21 Q. What is the affect of removing the water  
22 normalization adjustment on the rate year sales

1 forecast?

2 A. The removal of the water normalization  
3 adjustment reduces the rate year forecast by 41  
4 Mdt and 93 Mdt for Service Classification 1 (SC  
5 1), residential and religious non-heating, and  
6 SC 2, commercial and industrial (non-heating),  
7 respectively.

8 Q. The company used water normalization as part of  
9 its forecast. Please explain what you  
10 understand is meant by the term "water  
11 normalization."

12 A. The company states that water temperature is a  
13 factor in its customers' natural gas usage and  
14 varies with changes in air temperature (i.e.,  
15 weather). It is our understanding that the  
16 company's position is that traditional weather  
17 normalization, which applies to customer usage  
18 for space heating, also captures adjustments to  
19 customer usage for water heating. However,  
20 weather normalization is applied to only the  
21 heating classes for the months October through  
22 June of each year. According to the company, an

1 additional normalization, to adjust usage to  
2 reflect normal water temperatures and normal  
3 water heating consumption, is required where  
4 weather normalization is not applied (the summer  
5 months for heating classes and year-round for  
6 the non-heating classes).

7 Q. How does the company water normalize customer  
8 usage?

9 A. The company takes the average of the New York  
10 City's Department of Environmental Protection  
11 (DEP) highest and lowest water temperatures  
12 measured each month by DEP at its water quality  
13 monitoring stations located throughout New York  
14 City. The company then performs a statistical  
15 analysis to correlate the average of the monthly  
16 high and low water temperatures to the average  
17 air temperature recorded at the National Oceanic  
18 and Aeronautical Administration weather station  
19 in Central Park. This correlation is performed  
20 to determine a thirty year normal since the  
21 water temperature data is available only back to  
22 1989 while air temperature data for the past

1 thirty years is readily available. In classes  
2 where they have found a statistically  
3 significant correlation, water usage in these  
4 classes is normalized in the same manner as  
5 weather.

6 Q. Do you have any comments or concerns about the  
7 use of water normalization?

8 A. We have several concerns about the company's  
9 water normalization adjustment. First, the  
10 water temperature data on which the adjustment  
11 is based is limited and not well documented.  
12 Second, the average is calculated from two  
13 measurements, the highest and lowest water  
14 temperature recorded during a month, rather than  
15 the water temperature taken each day during the  
16 month. Third, the data collection is neither  
17 standardized nor taken on a routine basis in  
18 terms of location or place. Fourth, the  
19 temperature is an ancillary measurement taken by  
20 DEP; the primary purpose of DEP's monitoring is  
21 to measure water quality. Fifth, not all of Con  
22 Edison's customers use the same source of water

1 as New York City and no attempt was made to  
2 account for this factor. Sixth, water  
3 normalization requires a secondary correlation  
4 to air temperature since only fifteen years of  
5 water temperature data is available. These  
6 concerns introduce error into the water  
7 normalization adjustment. Because of these  
8 concerns, we do not believe that the company has  
9 submitted sufficient evidence to justify the use  
10 of water normalization and we did not include it  
11 in our projections.

12 Q. What modifications did you make to the company's  
13 weather normalization adjustment?

14 A. We increased the weather normalization  
15 adjustment for SC 2 commercial and industrial  
16 (heating) by 144 Mdt and increased SC 11  
17 residential and religious heating, four units or  
18 less, by 21 Mdt. However, the adjustment is  
19 incomplete because the company did not provide  
20 us with the number of customers separately for  
21 SC 11 and SC 31.

22 Q. Please explain.

1 A. The company used a different method from its  
2 previous rate proceeding, Case 03-G-1671, to  
3 weather normalize historic test year sales. In  
4 the previous case, a single regression analysis  
5 was used to develop the weather normalization  
6 factors. In this proceeding, two regressions  
7 analyses were used. We compared the two methods  
8 and determined that the single regression  
9 analysis had a better statistical correlation.  
10 We recommend using the single regression for  
11 weather normalizing the historic data in this  
12 case.

13 Q. Are you proposing other changes to the method  
14 used to weather normalization the historic test  
15 year sales?

16 A. Yes. We also believe that actual number of  
17 customers should be used in lieu of number of  
18 bills when developing the weather normalization  
19 adjustment because the billing information by  
20 month includes bill cancellations and bill re-  
21 renderings.

22 Q. Please explain the impact of bill cancellations

1 and re-renderings on the number of bills  
2 recorded in a month.

3 A. For example, if a customer was incorrectly  
4 billed for five months, the company would cancel  
5 the five incorrect bills and re-render one  
6 correct bill. The billing system would record  
7 the transaction as minus five bills plus one  
8 bill, or minus four bills in total. Overall,  
9 because of the way the billing system counts  
10 actual, canceled, and re-rendered bills, the  
11 numbers of bills are lower than the number of  
12 customers. The results can easily be seen on  
13 Exhibit\_\_\_\_(GRP-1).

14 Q. Have you calculated the impacts your weather  
15 normalization recommendations have on the sales  
16 forecast?

17 A. Not in total. For SC 2 commercial and  
18 industrial heating, we did make a complete  
19 adjustment for the single regression and the  
20 change from number of bills to customers,  
21 increasing the sales volume in the historic test  
22 period by 144 Mdt. However, we only reflected

1 an increase of 21 Mdt for SC 11, residential  
2 heating four units or less, due to the change in  
3 the regression analysis.

4 Q. Why doesn't the recommendation reflect the  
5 change from number of bills to number of  
6 customers for SC 11?

7 A. We asked the company to provide the number of  
8 customers it had in each of its service classes  
9 during the historic test period. The company  
10 provided the information, but the data for SC 3  
11 residential and religious heating was not  
12 separately identified for the sub classes of SC  
13 3, which includes SC 11 four units or less and  
14 SC 31 greater than four units. The company  
15 stated that the information was not readily  
16 available. Therefore, we could not make the  
17 adjustment specifically for either SC 11 or SC  
18 31 and had to proportion it based on historic  
19 growth in their billing determinants.

20 Q. What does the Panel recommend?

21 A. We recommend that the company update the weather  
22 normalization adjustment for the number of

1 customers, in lieu of number of bills, for SC 11  
2 and SC 31 the historic test year.

3 Q. Please explain your Exhibit\_\_\_\_(GRP-2).

4 A. This exhibit summarizes our recommended  
5 volumetric adjustments to the company's rate  
6 year sales forecast. We have increased the rate  
7 year forecast a total of 31 Mdt due to our  
8 adjustments to water normalization and weather  
9 normalization.

10 Q. In your review of the company's sales forecast,  
11 did you verify the number of customers and  
12 volumetric data in the historic test year?

13 A. We conducted an audit of the company's data  
14 relating to the number of customers and sales  
15 volume in the historic test year, twelve months  
16 ended June 2006, to determine its accuracy. We  
17 were able to tie the total volume to Con  
18 Edison's internal reports. However, we could not  
19 tie the number of customers or the throughput as  
20 shown on the company exhibits by service class.

21 Q. Why couldn't the Panel tie out the number of  
22 customers or the throughput by service class?

1 A. To our knowledge, there are no summary reports  
2 filed with the Commission or internal company  
3 reports that summarize the monthly number of  
4 customers and sales volume data by rate code or  
5 service class. There appears to be a lack of  
6 agreement within the company to these numbers.

7 Q. What is your recommendation?

8 A. To rectify this problem going forward, we  
9 believe that this information should be shown by  
10 rate code on the company's monthly operating and  
11 financial reports, or if the company does not  
12 wish to voluntarily change these reports, file  
13 the monthly information with the Commission.

14 Q. Do you believe that there is a need to create a  
15 customer forecast for the rate year?

16 A. Yes.

17 Q. Please explain.

18 A. In addition to relying on the number of bills  
19 per month as a basis for normalization  
20 adjustments, Con Edison also uses the number of  
21 bills per month to develop pricing  
22 relationships. We believe that the number of

1 bills per month is lower than the number of  
2 customers, and using the number of customers per  
3 month with a "through the blocks" method more  
4 accurately represents the revenues that will be  
5 produced in the rate year. The company's  
6 forecast method does not estimate the number of  
7 bills or customers in the rate year. Therefore,  
8 we developed a forecast of the number of  
9 customers for the twelve months ended September  
10 2008.

11 Q. How did you develop your forecast?

12 A. We used the actual number of customers  
13 separately for SC 1, SC 2 heating, SC 2 non-  
14 heating, SC 3, and SC 13 from March 2002 through  
15 November 2006, and created a twelve month  
16 rolling average for each of these classes. From  
17 the rolling average, we performed a regression  
18 analysis to develop the rate at which customers  
19 were changing. Starting from November 2006, the  
20 numbers of customers were then projected to the  
21 end of the rate year, September 2008.

22 Q. What is your proposed customer forecast?

- 1 A. Exhibit\_\_\_\_(GRP-3) presents the results of our  
2 customer forecast by service class. It details  
3 the average number of customers in the historic  
4 test year, the actual rolling average number of  
5 customers through November 2006, and the  
6 development of the forecast rolling average  
7 number of customers by month through the end of  
8 the rate year, September 2008.
- 9 Q. Please explain your Exhibit\_\_\_\_(GRP-4).
- 10 A. This exhibit identifies the historic average  
11 customer growth rate and compares that to our  
12 projected customer growth rate, per service  
13 class.
- 14 Q. Are you proposing other sales adjustments?
- 15 A. We are reflecting a change to recognize the New  
16 York City Housing Authority (NYCHA) move of its  
17 accounts from interruptible service to firm  
18 service. The company's response to DPS-315  
19 shows the NYCHA moved 73 customer accounts from  
20 interruptible service to firm service, along  
21 with the company's estimated revenue impact.  
22 This is reflected as Exhibit\_ (GRP-5).

1 Q. What are the impacts of the NYCHA's decision on  
2 the rate year?

3 A. Using current rates, the NYCHA customers will  
4 increase SC 3 volumes by 7,078 Mdt, increase  
5 firm revenues by approximately \$22.3 million and  
6 decrease non-firm revenues by approximately \$4.9  
7 million.

8 Unbundling & 2005 Embedded Cost of Service Study

9 Q. What is the purpose of the panel's testimony on  
10 unbundling in this proceeding?

11 A. The goal of unbundling is to implement rates  
12 that are both cost-based and fully unbundled so  
13 that customers pay for the services that they  
14 receive and that these services are clearly  
15 delineated so that customers know what services  
16 they are paying for. To that end, we will  
17 address Con Edison's proposals concerning  
18 unbundling in its testimony based on its 2005  
19 Gas Embedded Cost of Service ("ECOS"), study:  
20 the study's calculations and principles; the  
21 development of its Merchant Function Charge  
22 ("MFC") Calculations for Supply and Credit &

1 Collections/Theft ("C&C"); the need for further  
2 development of and need for a single Merchant  
3 Function Charge on customer bills; the  
4 methodology for achieving a reconciliation of  
5 the costs recovered through the MFC; and MFC  
6 costs to be recovered through the Purchase of  
7 Receivables ("POR") Program discount rate.

8 Q. Do you have any comments regarding the quality  
9 of Con Edison's ECOS study?

10 A. Yes. Generally speaking, we believe the study to  
11 be reasonable. However, there are several  
12 modifications that are needed to achieve fully  
13 unbundled rates and to establish a single MFC on  
14 customer bills.

15 Q. What guidance or directive has the Commission  
16 provided on the topic of energy-related  
17 unbundling?

18 A. On August 25, 2004, the Commission issued its  
19 Statement of Policy on Unbundling and Order  
20 Directing Tariff Filings in Case 00-M-0504. In  
21 the Unbundling Policy Statement and Order, the  
22 Commission provided guidance on the allocation

1 of utility costs between regulated and  
2 competitive functions.

3 Q. What is Con Edison's proposal in response to the  
4 Commission's Unbundling Policy Statement and  
5 Order?

6 A. Using its ECOS study, Con Edison developed a  
7 fixed rate of revenue requirement for the supply  
8 portion and the C&C portion in order to  
9 calculate a MFC rate for all firm sales (full  
10 service) customers and a MFC rate for retail  
11 access customers in the POR Program. The ECOS  
12 study also determined charges for printing and  
13 mailing bills and for receipts processing that  
14 will be addressed by staff witness Berger's  
15 testimony.

16 Q. Please describe the supply portion and the C&C  
17 portion of the MFC.

18 A. The supply portion includes costs associated  
19 with procuring commodity as well as an  
20 allocation of customer care and service-related  
21 activities, information resources and services,  
22 and commodity related uncollectibles. The C&C

1           portion addresses separately the credit and  
2           collection costs associated with commodity  
3           costs, with costs allocated between residential  
4           and commercial customers and between full  
5           service customers and retail access customers in  
6           the POR Program.

7    Q.   How were costs allocated to the service  
8           classifications?

9    A.   Costs were allocated to the company's gas  
10           service classifications, residential (SC 1 and  
11           SC 3) and commercial (SC 2NH, SC 2H, and SC 13).  
12           For gas procurement functions, 100% of the costs  
13           were allocated to the two classes proportional  
14           to the total delivered volumes for full service  
15           customers. Except for uncollectibles, all other  
16           costs were allocated to the two classes with 25%  
17           of the costs allocated proportionally by full  
18           service sales volumes and 75% of the costs  
19           allocated proportionally by full service  
20           customers. For the C&C portion, customers and  
21           their sales volumes participating in the POR  
22           Program were also included and allocated costs.

1           Uncollectibles were calculated for the two  
2           classes by multiplying the uncollectible  
3           experience rate for each class times the revenue  
4           for that class. Overhead rates were applied to  
5           all costs, except uncollectibles, to get to the  
6           total supply portion, including overheads and  
7           uncollectibles, of the MFC charge and the total  
8           C&C portion of the MFC surcharge.

9    Q.    What MFC rates did the company propose?

10   A.    The company proposed MFC rates of 45.1 cents and  
11           16.8 cents per dekatherm for full service  
12           residential and commercial customers,  
13           respectively, and 21.7 cents and 6.2 cents per  
14           dekatherm for POR residential and commercial  
15           customers, respectively. These rates were  
16           calculated from the proposed fixed rates of  
17           revenue requirement of 1.855%, or \$18,550 for  
18           every \$1 million, for the supply portion, and  
19           1.822%, or \$18,220 for every \$1 million of  
20           revenue requirement, for the C&C portion. These  
21           rates were further allocated between the two  
22           classes with the residential and commercial

1 classes being allocated \$13,940 and \$4,610 of  
2 the \$18,550 and \$14,790 and \$3,440 of the  
3 \$18,220 rates, respectively. Part of the C&C  
4 portion, \$2,062 per \$1 million of revenue  
5 requirement (\$1,461 residential and \$601  
6 commercial) was allocated to POR Program  
7 customers in determining the POR MFC rate.

8 Q. How were the rates for the MFC calculated?

9 A. The supply portion of the MFC rate was obtained  
10 by multiplying the revenue requirement times the  
11 \$13,940 rate and dividing by the full service  
12 residential sales volume for the residential MFC  
13 rate and by multiplying the revenue requirement  
14 times the \$4,610 rate and dividing by the full  
15 service commercial sales volume for the  
16 commercial MFC rate. The C&C portion of the MFC  
17 rate was obtained by multiplying the revenue  
18 requirement times the \$14,790 rate and dividing  
19 by the sales volume for full service and POR  
20 residential customers for the residential MFC  
21 rate and by multiplying the revenue requirement  
22 times the \$3,440 rate and dividing by the sales

1 volume for full service and POR commercial  
2 customers for the commercial MFC rate. The MFC  
3 rate for POR customers equals the C&C portion of  
4 the MFC rate for full service customers.

5 Q. What is the panel's assessment of the company's  
6 proposal for unbundling of the competitive  
7 commodity related services in its rates?

8 A. We believe that determination of the overall  
9 dollars for competitive commodity related  
10 services in the ECOS study is reasonable.  
11 However, we believe that the rates as unbundled  
12 by the company need some modification based on  
13 the following four principles: 1) all commodity  
14 related competitive services be combined into a  
15 single merchant function charge, 2) only  
16 customers taking these competitive services from  
17 the utility pay for the cost of these services,  
18 3) the charges should accurately reflect the  
19 costs associated with these competitive  
20 services, and 4) the amount of these charges and  
21 the number of customers taking these competitive  
22 services, used to determine rates, be based on

1 the most current data available.

2 Q. What are the panel's recommended modifications?

3 A. We recommend that 1) the uncollectibles  
4 associated with commodity be removed from the  
5 supply portion MFC and a third component to the  
6 MFC be created, for uncollectibles, based on the  
7 company filed uncollectible rate of 0.54%, 2)  
8 the POR MFC be eliminated and recovery of these  
9 revenues be through the POR discount rate  
10 instead, 3) the gas in storage working capital  
11 be removed from rate base and a fourth component  
12 to the MFC be created, for gas in storage  
13 carrying costs, with a proportional component in  
14 the company's monthly rate adjustment (MRA)  
15 being created as well, 4) the allocation,  
16 between residential and commercial classes, be  
17 revised to rate year projections for full  
18 service customers and sales in those classes,  
19 and, 5) true-ups be made on an allocation,  
20 between residential and commercial classes,  
21 based on rate year actuals for full service  
22 customers and sales in those classes.

1 Q. Please describe your recommendation to create a  
2 third component to the MFC, for uncollectibles.

3 A. We recommend that a third component to the MFC  
4 for uncollectibles associated with commodity be  
5 created and be equal to the commodity cost,  
6 provided monthly in the gas cost factor (GCF)  
7 statement, times the appropriate uncollectible  
8 rate for each class. This aligns the  
9 uncollectibles with actual gas costs, rather  
10 than projected or historical gas costs.

11 Q. What is the appropriate uncollectibles rate for  
12 the residential and commercial classes?

13 A. The company used an uncollectible rate of 0.54%  
14 to determine the uncollectibles expense in its  
15 rate year filing. In its testimony on the ECOS  
16 study, the company indicated that the rates were  
17 0.71% for residential and 0.30% for commercial.  
18 In its workpapers, the company forecasts rate  
19 year full service volumes of 44,909 Mdt  
20 residential and 30,791 Mdt commercial.  
21 Uncollectible rates of 0.7058% for residential  
22 and 0.2982% for commercial using the company's

1 rate year full service forecast will result in  
2 an overall rate equal to the company filed  
3 uncollectibles rate of 0.54% and should be the  
4 rates used.

5 Q. What are the rate year adjustments for this  
6 recommendation?

7 A. The uncollectibles expense recovered in base  
8 rates will be reduced by \$5,527,494 (0.54% times  
9 gas revenues) and the rate for the supply  
10 portion of the MFC will be reduced from \$18,550  
11 to \$11,212 per \$1 million of revenue  
12 requirement.

13 Q. Please describe your recommendation that the POR  
14 MFC be eliminated and recovery of these revenues  
15 be through the POR discount rate instead.

16 A. Testimony by staff witness Berger addresses in  
17 more detail the basis for inclusion of the costs  
18 of C&C for POR customers in the POR discount  
19 rate. Cost principles support this  
20 recommendation. The costs are associated with a  
21 service provided for marketers by the company.  
22 The POR discount rate is the mechanism charging

1 the marketers for this service. The costs are  
2 associated with commodity which the marketers  
3 provide, not the company.

4 Q. What are the rate year adjustments for this  
5 recommendation?

6 A. There will be no MFC for transportation  
7 customers. Recovery of revenue requirement for  
8 the POR portion of C&C portion of the MFC in the  
9 company's proposal will be through the POR  
10 discount rate as part of the POR program.  
11 Allocation of the \$18,220 per \$1 million revenue  
12 requirement between full service customers and  
13 POR Program customers will be in accordance with  
14 witness Berger's testimony, using the most  
15 current data on full service and POR customer  
16 and usage levels for the rate year.

17 Q. Please describe your recommendation to remove  
18 gas in storage working capital from rate base  
19 and to create a fourth component to the MFC for  
20 gas in storage carry costs, and to create a  
21 proportional component in the company's MRA.

22 A. Storage gas supplies full service customers some

1 of their gas supply and serves all customers in  
2 maintaining system operational requirements  
3 under varying operational conditions.  
4 Currently, working capital costs for gas in  
5 storage is recovered by Con Edison through base  
6 rates as part of rate base. The gas in storage  
7 working capital is estimated from rate year  
8 forecasts for gas costs and storage levels. We  
9 recommend removal of gas in storage working  
10 capital from rate base. The carrying costs for  
11 gas in storage would be recovered through the  
12 MFC and the MRA with transportation customers  
13 paying 20% of the rate of full service customers  
14 for storage associated with the provision of  
15 system operational requirements. The rate in  
16 the MFC component will be four times the rate in  
17 the MRA component to satisfy the 20%  
18 requirement. The rates should be designed to  
19 recover the projected average rate year gas  
20 storage inventory times the other customer  
21 capital rate.

22 Q. Why the 20% requirement?

- 1 A. The 20% requirement is consistent with Orange &  
2 Rockland Utilities, Incorporated's (O&R)  
3 treatment of gas in storage working capital.  
4 Con Edison and O&R have combined gas portfolios  
5 and system operations, so the 20% requirement  
6 should reflect the amount of storage associated  
7 with system operational requirements for Con  
8 Edison as well.
- 9 Q. Why use of the other customer capital rate?
- 10 A. The amount collected will be reconciled to  
11 actual carrying costs. The company will no  
12 longer be at risk for carrying costs higher than  
13 their estimated carrying costs as they will get  
14 full recovery if the carrying costs exceed their  
15 estimates. There should be some discount to the  
16 rate for reconciliation of the carrying costs on  
17 storage gas. The other customer capital rate  
18 was selected because it is consistent with how  
19 O&R calculates the carrying costs of gas in  
20 storage in its merchant function. In addition,  
21 the other customer capital rate is the rate used  
22 to calculate carrying costs on any annual gas

1 reconciliation imbalances.

2 Q. What are the rate year adjustments for this  
3 recommendation?

4 A. Based on the company's December 2006 update, the  
5 company's rate base should be reduced by  
6 \$130,852,000. Using the current other customer  
7 capital rate of 5.40%, \$7,066,088 of projected  
8 carrying costs are to be recovered through the  
9 MFC component for gas in storage carrying costs.

10 Q. Please describe your recommendations that the  
11 allocation between residential and commercial  
12 classes be revised to rate year projections for  
13 full service customers and sales in those  
14 classes, and that true-ups be made on an  
15 allocation between residential and commercial  
16 classes based on rate year actuals for full  
17 service customers and sales in those classes.

18 A. The company has identified these costs to be for  
19 competitive services and should recover the  
20 revenue requirement for these services.

21 Reconciliation to total dollars will assure that  
22 the company fully recovers revenues for these

1 services. Using the most current rate year  
2 projections for customers and sales volumes to  
3 set rates will minimize the amount of  
4 reconciliation, and using the rate year actual  
5 customers and sales volumes will allocate the  
6 proper level of costs to each class.

7 Q. What is Staff's projected MFCs for the  
8 residential and commercial classes for the rate  
9 year?

10 A. The MFC will be a function of the final revenue  
11 requirement and final projections for full  
12 service customer and sales levels for  
13 residential and commercial classes. We project  
14 the residential MFC to range from 44.82 to 53.96  
15 cents per dekatherm and the commercial MFC to  
16 range from 21.84 to 25.37 cents per dekatherm  
17 depending on the final revenue requirement. The  
18 range reflects the difference between no rate  
19 increase and the company's requested rate  
20 increase. The MFC component for uncollectibles  
21 is 8.22 cents per dekatherm and 3.47 cents per  
22 dekatherm for residential and commercial,

1           respectively, based on an average monthly GAC of  
2           \$11.65 during the rate year. The MFC component  
3           for carrying costs for storage gas is 6.89 cents  
4           per dekatherm. The customers' bills should show  
5           a single MFC with information on the four  
6           components; supply, C&C, uncollectibles, and  
7           carrying costs for stored gas provided in the  
8           company's monthly MFC statement.

9   Rate Year Revenue Forecast & Rate Design

- 10 Q.   Please describe how the company determines the  
11       rate year revenues from current rates.
- 12 A.   The company determines rate year revenues by the  
13       use of pricing relationships for existing  
14       customers and by a "through the blocks" approach  
15       for new customers. The pricing relationships are  
16       derived from historical data for monthly  
17       delivery volumes and the monthly booked revenues  
18       from these volumes. For existing customers, the  
19       company takes the rate year forecast for monthly  
20       volumes and using the pricing relationships,  
21       calculates the rate year revenues for existing  
22       customers. For new customers, the company takes

1 the number of new customers, the monthly average  
2 use per customer, and the existing rates and  
3 determines the rate year revenues for new  
4 customers, using a "through the blocks"  
5 approach. For example, if the monthly average  
6 usage was 100 therms for the new residential  
7 heating customer, each new customer would  
8 generate base revenue from three blocks; the  
9 minimum charge for the first 3 therms (first  
10 block), the block charge for the next 87 therms  
11 (87 times the second block rate), and the next  
12 block charge for 10 therms (10 times the third  
13 block rate).

14 Q. Does the panel agree with method of pricing  
15 relationships?

16 A. No. We believe that pricing relationships fail  
17 to capture gradual changes in revenue margin  
18 over time as the amount of revenue from the  
19 minimum charge (first block) relative to the  
20 amount of revenue from volumetric charges  
21 (remaining blocks) changes. Further these  
22 pricing relationships have been developed using

1 data for number of bills inconsistent with the  
2 number of bills expected from data for the  
3 number of customers. We have determined that  
4 these changes are significant from our analysis  
5 of the company's forecasted rate year volumes  
6 using the company's 2005 billing determinants.

7 Q. Please describe your analysis.

8 A. We took the company's billing determinants, the  
9 number of customers and the delivery volumes,  
10 for each rate block within each service  
11 classification for the historic period, twelve  
12 months ending December 31, 2005. The delivery  
13 volumes were weather normalized to the company's  
14 weather normalized delivery volumes by  
15 subtracting proportionally, by block, the usage  
16 remaining after adjusting for the base (lowest  
17 month) usage for the heating classes. Growth in  
18 delivery volumes due to new customers was  
19 accomplished by proportioning the delivery  
20 volumes to all the blocks. Adjustments to  
21 delivery volumes resulting from conservation and  
22 economic (non customer) growth, was accomplished

1 by subtraction and addition, respectively, to  
2 the usage remaining, proportionally by block,  
3 after adjusting for the base (lowest month)  
4 usage. We then priced out the rate year revenue  
5 using the "through the blocks" approach, the  
6 same approach that the company used to price out  
7 the historic year revenues.

8 Q. What was the result of your analysis?

9 A. The rate year base revenues at current rates for  
10 the company's forecasted volumes and Staff's  
11 number of customers are \$568,361,953. The  
12 company calculated the rate year base revenues  
13 to be \$563,476,000 using its approach, a  
14 difference of \$4,885,953. Elimination of the  
15 volumes due to water normalization and addition  
16 of the volumes due to staff's modification to  
17 the company's weather normalization resulted in  
18 rate year base revenues \$568,373,230, a  
19 \$4,897,230 increase to the company's forecast.

20 Q. Does the difference in revenues result in any  
21 recommendations?

22 A. Yes, the rate year revenues should be adjusted

1 upward by \$4,897,230 and the company, in  
2 verifying its proposed rates in its rate design,  
3 should perform the rate year revenue calculation  
4 in the same manner as it performs the historic  
5 year revenue calculation, by pricing the  
6 forecasted number of firm delivery customers and  
7 delivery volumes for each block at that block's  
8 rate.

9 Q. Do the base revenues of \$568,373,230 for the  
10 rate year include the \$22.3 million in base  
11 revenues from the NYCHA becoming firm customers  
12 in the rate year?

13 A. No. The starting billing determinants in 2005  
14 did not include NYCHA as it was not a firm  
15 customer and are not included. The \$22.3  
16 million in revenues are additional revenues  
17 based on information provided by the company.  
18 These revenues must be reflected in the rate  
19 year revenues at current rates and the NYCHA  
20 billing determinants must be included in the  
21 rate design for the rate year.

22 Q. What is your recommendation for rate design?

- 1 A. Provided the company prices the forecasted  
2 number of firm delivery customers and firm  
3 delivery volumes through the blocks, we believe  
4 the approach of the company's rate design to be  
5 reasonable subject to a few modifications.
- 6 Q. Please describe the company's rate design  
7 approach.
- 8 A. The company first examined the results of its  
9 ECOS study for guidance in its rate design. A  
10 rate of return analysis for the four primary  
11 service classes, residential heating(SC 3) and  
12 commercial heating(SC 2 H) and residential non-  
13 heating(SC 1) and commercial non-heating(SC 2  
14 NH), determined that the commercial classes have  
15 a revenue surplus, the residential non-heating  
16 class a revenue deficit, and the residential  
17 heating class no revenue imbalance, as  
18 determined by the criteria that an imbalance  
19 exists when the rate of return for a class  
20 deviates more than 10% from the overall system  
21 rate of return. The revenue deficit in the  
22 residential non-heating class amounted to

1           \$4,396,677 in base revenues. The company rate  
2           design reallocated \$4,396,677 of the revenue at  
3           current rates from the commercial classes,  
4           \$3,138,905 from heating and \$1,257,772 from non-  
5           heating, to eliminate the revenue deficiency in  
6           the residential non-heating class on a base  
7           revenue basis. The company then allocated the  
8           rate year increase proportionally to these  
9           realigned rate year revenues, at current rates,  
10          in order to obtain the rate year revenue targets  
11          for the service classes 1, 2NH, 2H, 3, and 13.  
12          The revenue targets for the rate year were then  
13          reduced for each class, by subtracting the  
14          revenues from billing and payment processing and  
15          the merchant function charges for supply and for  
16          credits and collections, to obtain the rate year  
17          increases for each class.

18    Q.    What is your recommendation to the rate design's  
19          allocation of the increases?

20    A.    We recommend that the base revenues for the rate  
21          year, at current rates, be determined by the  
22          "through the blocks" approach, using the

1 projected billing determinants for the rate  
2 year. Exhibit \_\_\_\_ (GRP-6) provides the billing  
3 determinants for the rate year, except for the  
4 NYCHA billing determinants as noted before, that  
5 the company should use unless it can provide  
6 alternative billing determinants consistent with  
7 rate year customer and delivery volume levels.  
8 The company should then perform the  
9 reallocation, as described above, to address the  
10 residential non-heating revenue deficiency  
11 identified by the ECOS. The merchant function  
12 should be removed from the revenue increase at a  
13 total \$29,432 (\$11,212 for supply and \$18,220  
14 for C&C) per \$1 million of revenue requirement  
15 with the allocation of the C&C portion between  
16 full service and POR Program customers based on  
17 the latest estimates for number of customers and  
18 delivery volumes taking full service and in the  
19 POR program. The allocation of the supply  
20 portion and the full service C&C portion between  
21 the residential and commercial classes should be  
22 based on the latest estimates for number of

1 customers and delivery volumes taking full  
2 service. The billing and payment processing  
3 charge is to remain as part of the minimum  
4 charge per Staff witness Berger's  
5 recommendations. New rates should then be  
6 designed, using the same billing determinants  
7 used to forecast the rate year revenues at  
8 current rates, following the same methodology  
9 presented in the company's workpapers.

10 Non-Firm Revenues

11 Q. What are non-firm revenues?

12 A. Non-firm revenues are those revenues not derived  
13 from the firm service classes. Non-firm  
14 revenues are shared between ratepayers to reduce  
15 rates, and shareholders to provide an incentive  
16 to maximize non-firm revenues for the benefit of  
17 ratepayers. Currently such shared non-firm  
18 revenues include revenues from capacity  
19 releases, bundled sales and exchanges of gas,  
20 balancing charges, fixed and variable  
21 transportation charges to power generators,  
22 winter bundled sales service (WBSS) demand

- 1 charges, and variable charges to the New York  
2 Power Authority (NYPA), and revenues from non-  
3 firm service classes 9, 12 (rate 1), 16, and 19.
- 4 Q. How are these revenues shared between ratepayers  
5 and shareholders?
- 6 A. Per the joint proposal in Case 03-G-1671,  
7 annually the company retains 100% of the first  
8 \$35 million which are imputed in base rates, 20%  
9 of the next \$15 million, 25% of the next \$20  
10 million, and 10% of non-firm revenues above \$70  
11 million.
- 12 Q. What is your recommendation for non-firm  
13 revenues?
- 14 A. The current sharing formula between ratepayers  
15 and shareholders for non-firm revenues should  
16 continue. However, non-firm revenues from  
17 capacity releases to marketers, balancing  
18 charges, and WBSS demand charges should be  
19 excluded from the sharing formula and returned  
20 100% to firm sales customers through the gas  
21 supply charge (GSC).
- 22 Q. Why do you recommend the exclusion of those

1 revenues?

2 A. The purpose of the sharing formula is to provide  
3 an incentive to the company to generate  
4 additional benefit for the ratepayers from the  
5 company's assets or services, beyond the  
6 benefits expected from normal company use of  
7 those assets and services to serve their  
8 customers, by maximizing non-firm revenues.  
9 Historically, the company had unused capacity to  
10 serve firm sales customers. The sharing  
11 mechanism for capacity was established to  
12 maximize benefits from this unused capacity by  
13 sharing such benefits with the company's  
14 shareholders. However, due to load growth and  
15 some restructuring of Con Edison's gas portfolio  
16 to reduce capacity, most available capacity not  
17 used by customers is now used for delivery of  
18 gas to inter-departmental steam units. Release  
19 of capacity to marketers, balancing, and the  
20 WBSS are just a result of normal company use of  
21 assets and services to serve their customers.  
22 Sharing of these non-firm revenues does not

1 provide an incentive to generate any additional  
2 non-firm revenues beyond normal company use of  
3 those assets and services.

4 Depreciation Expense

5 Q. How is the depreciation expense for the rate  
6 year determined?

7 A. Depreciation expense for the rate year is  
8 determined by summing, for each depreciable  
9 asset account, the product of the account's  
10 annual depreciation rate and the projected  
11 average annual account balance.

12 Q. How is the annual depreciation rate set for each  
13 account of depreciable assets?

14 A. A mortality study based on actual experience is  
15 conducted to determine the average service life,  
16 the net salvage, and the life table. The life  
17 table reflects the distribution of service lives  
18 within each asset classification at retirement.  
19 A mortality study looks at when assets in each  
20 account have been retired from service to  
21 determine when assets currently in each account  
22 will be retired in the future. The annual

1 depreciation rate is determined from the average  
2 service life and net salvage.

3 Q. How is the adequacy of the annual depreciation  
4 rates evaluated?

5 A. The purpose of depreciation expense is to fully  
6 recover the cost of each depreciable asset and  
7 the cost of retiring that asset from service,  
8 i.e. net salvage, by the end of that asset's  
9 service life. To determine if the annual  
10 depreciation rates are providing depreciation  
11 expenses that will fully recover these costs at  
12 the retirement of each depreciable asset, a  
13 comparison of the accumulated provision for  
14 depreciation per books, or book reserve, is made  
15 to the theoretical reserve to determine the  
16 adequacy of the annual depreciation rates. The  
17 book reserve is the total amount of monies  
18 actually expensed over time for the depreciation  
19 of depreciable assets as these assets are being  
20 utilized in the operation of the utility to  
21 provide service. The theoretical reserve is the  
22 estimated amount of depreciation that should

1 have been accrued based on the average service  
2 life, and net salvage for all the different  
3 accounts for depreciable assets. Deviations, in  
4 actual experience from the experience predicted  
5 by the average service life, life table, and net  
6 salvage, result in the deviation of the book  
7 reserve from the theoretical reserve. The  
8 annual depreciation rates are typically  
9 considered adequate when the book reserve is  
10 within 10% of the theoretical reserve for all  
11 depreciable assets.

12 Q. When were the annual depreciation rates last  
13 changed for Consolidated Edison?

14 A. The annual depreciation rates were last changed  
15 in the joint proposal for Case No. 03-G-1671,  
16 approved by the Commission September 27, 2004.  
17 The rates adopted in that case created a  
18 theoretical reserve for which there was a  
19 surplus in the book reserve of 5.65% or  
20 \$30,286,039 as of December 31, 2002.

21 Q. How were the annual depreciation rates, adopted  
22 in Case 03-G-1671, developed?

- 1 A. A mortality study based on experience data  
2 through December 31, 2002 was conducted by the  
3 company and based on this study, the company  
4 proposed changes to the annual depreciation  
5 rates. The joint proposal adopted these  
6 changes.
- 7 Q. Is the company proposing to change the annual  
8 depreciation rates in this proceeding?
- 9 A. Yes. As presented by company witness Hutcheson,  
10 the company is proposing to change rates as  
11 indicated by a mortality study performed by and  
12 presented by company witness Robinson based on  
13 experience data through December 31, 2003. The  
14 company's proposed annual depreciation rates  
15 would create a theoretical reserve for which  
16 there would be a deficit in the book reserve of  
17 5.98% or \$43,887,308 as of December 31, 2005 and  
18 an annual depreciation expense of \$66,296,315  
19 for the gas plant.
- 20 Q. What result does the current annual depreciation  
21 rates provide?
- 22 A. They provide a surplus in the book reserve of

1           6.42% or \$41,594,160 and an annual depreciation  
2           expense of \$61,920,497 for the gas plant as of  
3           December 31, 2005.

4   Q.   Do you agree with the company's recommended  
5           changes?

6   A.   No. We have examined witness Robinson's  
7           mortality study based on actual experience  
8           through December 31, 2003 and the mortality  
9           study conducted by the company in Case 03-G-  
10          1671. Based on our analysis, we can find no  
11          compelling reason to change the current annual  
12          depreciation rates.

13   Q.   Please explain your analysis.

14   A.   First, witness Robinson's study relies on only  
15          one additional year of experience data, 2003.  
16          Mortality studies rely on the cumulative actual  
17          experience over the life of each asset account.  
18          The average service lives of the accounts for  
19          which witness Robinson's study recommends  
20          changes range from 25 years to 85 years. Based  
21          on witness Robinson's study, the company  
22          proposes to change every life table, the average

1 service life for 19 of the 21 gas plant  
2 accounts, and the net salvage of 12 of the 17  
3 gas plants accounts that are not capped by the  
4 company. A dramatic change in actual experience  
5 would have to have occurred in the one  
6 additional year of experience, 2003, for  
7 company's proposed changes. Our analysis found  
8 no changes in actual experience to support the  
9 proposed changes.

10 Q. Which accounts did you analyze?

11 A. With so many changes, we focused on four large  
12 accounts where the changes were either major or  
13 represented a reversal of the changes made in  
14 Case 03-G-1671. These accounts were the tunnels  
15 account under the mains account for the  
16 transmission plant (account 367.30 (company  
17 account 96843)), the services account for the  
18 distribution plant (account 380.00 (company  
19 account 9666)), the meters account for the  
20 distribution plant (account 381.00 (company  
21 account 9668)) , and the meter installation  
22 account for the distribution plant (account

1 382.00 (company account 9670)). We narrowed it  
2 further by eliminating meter installations, as  
3 it typically follows the meters account for  
4 average service life.

5 Q. What were the changes in the three accounts?

6 A. In Case 03-G-1671, the average service life of  
7 the meters accounts had been increased from 35  
8 years to 40 years. The company is now proposing  
9 to revert back to 35 years. The average service  
10 life of the services accounts had been increased  
11 to 55 years from 50 years which the company is  
12 again proposing to revert back to 50 years. For  
13 the tunnels account, the company is proposing to  
14 change the average service life to 35 years from  
15 85 years, which was left unchanged in Case 03-G-  
16 1671.

17 Q. Did you observe any dramatic changes in the  
18 actual experience in 2003 for any of these  
19 accounts?

20 A. No.

21 Q. What is your explanation for the company's  
22 proposed changes for so many accounts with only

1           one year of additional actual experience?

2    A.    In Case 03-G-1671, the company performed its  
3           mortality study using a software program which  
4           looked at 10 year rolling bands and shrinking  
5           bands for 57 years of data (1946-2002) for the  
6           services and meters accounts, which provided 48  
7           point and 57 point trends in average service  
8           life, life table, and fit index for first,  
9           second, and third degree fits of the data.  
10          Witness Robinson's study, in this proceeding,  
11          created an observed life table from the data and  
12          derived the average service life and life table  
13          that best fit the observed life table. The  
14          approach by witness Robinson tends to be biased  
15          by single year vintages, regardless the size of  
16          the assets placed in service, while the  
17          rolling/shrinking band approach avoids an  
18          anomaly in one year biasing the analysis.

19   Q.    Could you provide an example?

20   A.    Yes. The tunnels account had \$4.0 million  
21          additions and \$1.0 million in retirements  
22          between 1995 and 2003 with a starting book value

1 of \$13.4 million. The percent surviving between  
2 1995 and 2003 for the quartiles, in dollars, for  
3 youngest to oldest is 96% (age 1-10 years), 87%  
4 (age 10-24 years), 94% (24-88 years), and 100%  
5 (88-100 years). Yet the recommended average  
6 service life proposed is 35 years versus the  
7 current service life of 85 years. The major  
8 contributor to the reduction in average service  
9 life is the 1997 retirement of the fire and gas  
10 detection system in Astoria tunnel of \$351,000  
11 of plant. The rolling/shrinking band approach  
12 is not as susceptible to one event biasing the  
13 mortality study since it looks at trends.

14 Q. Has the company provided an explanation for the  
15 dramatic changes in annual depreciation rates?

16 A. No. The company has taken witness Robinson's  
17 study, which supports an increase of \$4.965  
18 million in depreciation expense, without  
19 explanation or reconciling the results of  
20 witness Robinson's study with the results of  
21 company's study the previous year in terms of  
22 actual experience.

1 Q. What is your recommendation?

2 A. Our recommendation is to continue using the  
3 current annual depreciation rates. Based on the  
4 company's evaluation of the depreciation reserve  
5 as of December 31, 2005, the surplus has grown  
6 from 5.65% to 6.42% during the past three years.  
7 However the current rates have been in effect  
8 for only the last fifteen months of this period  
9 and in the last twelve of those months the  
10 surplus has remained virtually unchanged. This  
11 is a good indication that the depreciation rates  
12 are set correctly and should continue to be used  
13 to calculate the depreciation expense. The  
14 company has not shown that the mortality study,  
15 in Case 03-G-1671, was flawed. Nor has it shown  
16 that the actual experience in 2003 would result  
17 in such drastic changes to depreciation rates.  
18 We recommend that the depreciation expense for  
19 the rate year be reduced by \$4.965 million,  
20 accordingly.

21 Recovery of Interruptible Plant

22 Q. How is interruptible plant recovered currently?

1 A. Interruptible plant is recovered according to  
2 the terms established in Case 03-G-1671.  
3 Recovery of the cost of plant in service  
4 applicable to interruptible and off-peak firm  
5 customers (excluding power generation), as of  
6 September 30, 2004, is being amortized over five  
7 years at an annual rate of \$1,478,268 per year  
8 with two years remaining as of the end of  
9 September 2007. The cost is amortized by  
10 reducing the deferred balance of firm customers'  
11 share of Non-Firm Revenues remaining at the end  
12 of each month. For each interruptible customer  
13 commencing service on or after October 1, 2004  
14 under SC 12 Rate 1 and the corresponding SC 9  
15 subclass, revenues generated from that customer  
16 are applied to offset the cost of plant incurred  
17 to serve that customer until that customer has  
18 generated revenues to cover the cost of that  
19 plant. Thereafter, the revenues provided by the  
20 interruptible customer are considered Non-Firm  
21 Revenues and included in the non-firm revenue  
22 sharing mechanism.

1 Q. What is the company's proposal for the recovery  
2 of interruptible plant?

3 A. The company witness Hutcheson recommends that  
4 the current amortization of the \$1,478,268  
5 continue until its completion in September 2009.  
6 However the company recommends that the cost of  
7 interruptible plant incurred on or after October  
8 1, 2004 that is still not recovered be recovered  
9 by a 3 year amortization of \$317,008, recovered  
10 in the same way as the current \$1,478,268  
11 amortization.

12 Q. Do you agree with company's proposal?

13 A. No. The intent of the recovery of the cost of  
14 interruptible plant from revenues generated by  
15 that plant is to assure that revenue recovery  
16 from interruptible plant is a consideration in  
17 the company's decisions concerning interruptible  
18 service. For interruptible plant in service  
19 prior to October 1, 2004, the company was  
20 guaranteed recovery of its cost through the  
21 amortization of that cost without regard to the  
22 revenue it actually generated. Tying recovery

1 of plant to revenues places revenue generation  
2 as an important consideration in the company's  
3 business decisions regarding interruptible  
4 service.

5 Q. What is your recommendation?

6 A. We recommend that the current recovery of  
7 unrecovered cost of interruptible plant in  
8 service prior to October 1, 2004, established in  
9 Case 03-G-1671, continue at an amortization of  
10 \$1,478,268 per year through the end of September  
11 2009. We recommend that the company's proposal  
12 for three year amortization of the recovery of  
13 unrecovered cost of interruptible plant  
14 subsequent to October 1, 2004 be rejected with  
15 the rate year depreciation expense net change  
16 being reduced by \$336,772. We recommend that  
17 the recovery of \$24,138 in interruptible plant  
18 from revenues continue until it is fully  
19 recovered. As for the practice of accelerating  
20 recovery of unrecovered cost of interruptible  
21 plant, we recommend that it be permanently  
22 discontinued.

1 Q. Why do you recommend discontinuance of the  
2 accelerated recovery of unrecovered costs of  
3 interruptible plant?

4 A. The company tariffs now require new plant for  
5 interruptible customers and old plant for firm  
6 customers of less than five years switching to  
7 interruptible service to be recovered from the  
8 customer. The only plant likely to qualify for  
9 accelerated recovery is the existing plant of  
10 firm customers for longer than five years who  
11 switch to interruptible service. The company is  
12 always at risk of losing long-time firm  
13 customers due to changing economics and the  
14 switching of firm customers to interruptible  
15 service should receive no additional special  
16 treatment.

17 Lost-and-Unaccounted for Gas

18 Q. What is the current procedure for calculating  
19 the lost-and-unaccounted-for (LAUF) gas factor?

20 A. As part of the Commission approved Joint  
21 Proposal in Case 03-G-1671, the LAUF factor was  
22 set at 2.9% for the first rate year and would

1 remain in effect for rate years 2 and 3, unless  
2 the rolling 3-year average varied by plus or  
3 minus 5% from 2.9%, or the line loss factor that  
4 is in effect. Essentially, there is a band of  
5 10% around the 2.9% figure. That is, if the  
6 actual three year average losses are within the  
7 band, the band does not change. The Joint  
8 Proposal also capped the benefit or penalty at  
9 \$6.25 million for any rate year related to the  
10 line loss incentive.

11 Q. Is use of a band typical for the LAUF  
12 mechanisms?

13 A. Not throughout New York State. This mechanism  
14 is unique to Con Edison and Orange and Rockland  
15 Utilities and was developed as part of  
16 settlement negotiations.

17 Q. How has the company performed in relation to its  
18 LAUF target?

19 A. The company's actual losses were significantly  
20 less than their allowed losses over the last  
21 three years such that the rolling three year  
22 average for LAUF percentage has decreased from

1 2.9% to 1.94% in three years.

2 Q. What is Con Edison's proposal regarding the LAUF  
3 factor?

4 A. The company has not made any specific proposals  
5 regarding the LAUF factor.

6 Q. What are you proposing here?

7 A. We propose to set Con Edison's LAUF factor at  
8 the three year average of actual losses. The  
9 result is a fixed LAUF percentage of 1.94% or a  
10 fixed LAUF factor of 1.0198.

11 Q. Do you propose to continue the tolerance bands  
12 or the dollar cap?

13 A. No. Our recommendation is consistent with  
14 Commission practice to establish a LAUF factor  
15 in each gas rate proceeding to properly account  
16 for system losses.

17 Gas Conversion Program

18 Q. Did Con Edison's last gas rate case include  
19 funding for a gas conversion program?

20 A. Yes. In Case 03-G-1671, the Commission included  
21 \$1.47 million per year for the gas conversion  
22 program. The program primarily targets oil to

1 gas conversions, and is designed to enhance  
2 customer growth.

3 Q. Do you recommend continued funding for this  
4 program in the rate year?

5 A. No. We believe that in the context of a one  
6 year rate plan these costs should be excluded  
7 because firm customers would not realize the  
8 benefit of the program during the rate year.

9 Q. Does this conclude your testimony at this time?

10 A. Yes.

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of  
  
Consolidated Edison Company of New York, Inc.  
  
Case 06-G-1332  
  
March 2007

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Prepared Exhibits of:

GAS RATES PANEL

Aric J. Rider  
Utility Engineer 2  
Office of Gas & Water  
State of New York  
Department of Public Service  
Three Empire State Plaza  
Albany, New York 12223-1350

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Albany, New York 12223-1350

FROM YAEGEL													
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.													
COMPARISON OF BILLS TO CUSTOMERS (times 12)													
Month	SC 2			SC 3						SC 9	SC 14	SC 13	Total
	SC 1	NHT	HT	SC 11	SC 31	SC 13	SC 14	SC 9					
Jan-05	591,426	53,889	53,761	217,143	13,549	(2)	-	1	-	-	-	929,767	
Feb-05	587,032	54,185	53,893	216,526	13,519	(35)	-	1	-	-	-	925,121	
Mar-05	575,226	54,209	53,548	212,935	13,398	(1)	-	1	-	-	-	909,316	
Apr-05	592,109	54,849	53,536	212,544	13,467	237	-	1	-	-	-	926,743	
May-05	591,366	54,887	53,687	208,516	13,402	395	-	1	-	-	-	922,254	
Jun-05	598,634	54,715	53,130	208,217	13,306	405	-	1	-	-	-	928,408	
Jul-05	597,865	54,878	52,982	211,446	13,459	406	-	1	-	-	-	931,037	
Aug-05	590,177	54,694	53,508	209,261	13,477	387	-	1	-	-	-	921,505	
Sep-05	585,873	54,403	53,089	209,900	13,471	407	-	1	-	-	-	917,144	
Oct-05	584,361	53,828	53,198	213,277	13,528	465	-	1	-	-	-	918,658	
Nov-05	586,605	53,871	53,499	214,362	13,411	401	-	1	-	-	-	922,150	
Dec-05	590,573	55,313	55,349	221,533	13,996	46	-	1	-	-	-	936,811	
SUM	7,071,247	653,721	643,180	2,555,660	161,983	3,111	-	12	-	-	-	11,088,914	
FROM GRP-2, WORKPAPERS A, PAGE 8 OF 17 - CUSTOMERS ANNUALIZED (times 12)													
12 ME 12/31/05	8,500,797	707,159	680,482	2,815,246	167,080	4,717	-	12	-	-	-	12,875,493	
DIFFERENCE	1,429,550	53,438	37,302	259,586	5,097	1,606	-	-	-	-	-	1,786,579	

**CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.  
DEVELOPMENT OF 12 MONTHS ENDING SEPTEMBER 30, 2008  
FORECASTED FIRM DELIVERY VOLUMES (Mdts)**

<u>Description</u>	<u>SC 1</u>	<u>SC 2 NHt</u>	<u>SC 2 Ht</u>	<u>SC 3</u>	<u>SC 13</u>	<u>SC 14</u>	<u>SC 9</u>	<u>Lafarge</u>	<u>Total</u>
Con Edison Forecast	4,809	18,469	29,510	52,373	73	12	699	1,658	107,603
Staff's Adjustments									
Weather Normalization			144	21					
Water Normalization	-41	-93							
NYCHA				7,078					
Staff's Proposed Sales Forecast	4,768	18,376	29,654	59,472	73	12	699	1,658	114,712

**CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.  
DEVELOPMENT OF 12 MONTHS ENDING SEPTEMBER 30, 2008  
FORECASTED NUMBER OF CUSTOMERS**

<u>Description</u>	<u>SC 1</u>	<u>SC 2 NHI</u>	<u>SC 2 HI</u>	<u>SC 3</u>	<u>SC 13</u>
Forecasted Growth Rate Per Month	(307)	51	130	283	3
From GRP-2, Workpapers A, Page 8 of 17, 12 ME December-05	708,400	58,840	56,797	248,527	393
Forecasted Average Customers for the Rate Year, 12 ME September-08	698,264	60,519	61,094	257,877	488
Bills in the Rate Year, 12 ME September-08	12,938,896	8,379,174	726,224	733,128	5,850
	1,072,957			3,094,520	
					5,850

<b>CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.</b> <b>DEVELOPMENT OF 12 MONTHS ENDING SEPTEMBER 30, 2008</b> <b>HISTORIC ANNUAL GROWTH RATES VS. STAFF ANNUAL GROWTH RATE</b>						
Year	SC 1	SC 2 NHT	SC 2 HT	SC 3	SC 13	
03-04	-5,652	940	1,572	2,576	36	
04-05	-4,193	364	1,800	3,664	56	
05-06	-3,641	326	1,289	4,216	14	
06-07	-4,831	628	1,577	3,344	34	
STAFF	-3,686	610	1,563	3,400	34	

**NYCHA Accounts Transferring From Interruptible to Firm Rate on 12/1/2006  
Impact over October 1, 2007 through September 30, 2008**

	No. of <u>Customers</u>	Volume - MDT		Net Revenue - \$000	
		<u>Firm</u> <sup>3</sup>	<u>Non-Firm</u> <sup>4</sup>	<u>Gain</u>	<u>Loss</u>
NYCHA (SC12 Rate 2) <sup>1</sup>	52	5,976	(5,460)	\$18,824	(\$3,824)
NYCHA (SC12 Rate 1) <sup>2</sup>	21	1,102	(1,043)	\$3,470	(\$1,036)
Total Impact	73	7,078	(6,503)	\$22,294	(\$4,860)
		70,780,000			
		969,589			
		<u>80,799</u>			

<sup>1</sup> NYCHA previously indicated that six firm accounts (Ravenswood, Morrisania Air Rights, Two Bridges, Clason Point 2, Dyckman, and Bland) would transfer to SC12 rate 2 by the conclusion of 2006/07 winter season. Other 46 SC12 rate 2 accounts were moved to firm rates effective December 1, 2006.  
<sup>2</sup> 21 SC12 rate 1 accounts were moved to firm rates effective December 1, 2006.  
<sup>3</sup> Actual interruptible (IT) volumes from June 2005 through May 2006 adjusted for abnormal weather and actual Company curtailments as IT customers.  
<sup>4</sup> Volumes reflect plan level of Company curtailments.

	Rate Year Billing Determinants		
	Company Volumes	Less Water Normalization	Corrected Weather Normalization
<b>Service Classification 1</b>			
Annual Bills	7,268,167	7,268,167	7,268,167
Therms 0-3	14,914,167	14,914,167	14,914,167
Therms >3	26,624,145	26,263,937	26,263,937
<b>Total Annual Sales Volumes (Therms)</b>	<b>41,538,312</b>	<b>41,176,104</b>	<b>41,176,104</b>
<b>Service Classification 1 - Low Income</b>			
Bills	1,111,008	1,111,008	1,111,008
Therms 0-3	2,871,416	2,871,416	2,871,416
Therms >3	3,680,272	3,630,480	3,630,480
<b>Total Annual Sales Volumes (Therms)</b>	<b>6,551,688</b>	<b>6,501,896</b>	<b>6,501,896</b>
<b>Service Classification 2 Heating</b>			
Annual Bills	731,966	731,966	731,966
Therms 0-3	1,962,124	1,962,124	1,962,124
Therms 3-90	39,769,584	39,769,584	39,769,584
Therms 90-3000	175,703,200	175,703,200	175,535,167
Therms >3000	74,366,852	74,366,852	74,966,015
<b>Total Annual Sales Volumes (Therms)</b>	<b>291,801,760</b>	<b>291,801,760</b>	<b>293,232,890</b>
<b>Service Classification 2 Heating - Air Conditioning</b>			
Therms 0-1200	128,898	128,898	128,898
Therms >1200	1,360,995	1,360,995	1,360,995
<b>Total Annual Sales Volumes (Therms)</b>	<b>1,489,893</b>	<b>1,489,893</b>	<b>1,489,893</b>
<b>Service Classification 2 Heating - Economic Development Zone</b>			
Annual Bills	1,162	1,162	1,162
Therms 0-3	2,926	2,926	2,926
Therms 3-90	65,428	65,428	65,428
Therms 90-250	93,395	93,395	93,395
Therms 250-3000	615,279	615,279	615,839
Therms >3000	1,031,319	1,031,319	1,039,629
<b>Total Annual Sales Volumes (Therms)</b>	<b>1,808,347</b>	<b>1,808,347</b>	<b>1,817,217</b>
<b>Service Classification 2 Non-Heating</b>			
Annual Bills	726,079	726,079	726,079
Therms 0-3	1,852,614	1,852,614	1,852,614
Therms 3-90	34,192,961	34,037,342	34,037,342
Therms 90-3000	134,263,407	133,652,343	133,652,343
Therms >3000	35,106,974	34,947,195	34,947,195
<b>Total Annual Sales Volumes (Therms)</b>	<b>205,415,956</b>	<b>204,489,494</b>	<b>204,489,494</b>
<b>Service Classification 2 Non-Heating - Air Conditioning</b>			
Therms 0-1200	64,808	64,808	64,808
Therms >1200	1,002,940	1,002,940	1,002,940
<b>Total Annual Sales Volumes (Therms)</b>	<b>1,067,748</b>	<b>1,067,748</b>	<b>1,067,748</b>
<b>Service Classification 2 Non-Heating - Economic Development Zone</b>			
Annual Bills	145	145	145
Therms 0-3	388	388	388
Therms 3-90	13,510	13,448	13,448
Therms 90-250	23,120	23,015	23,015
Therms 250-3000	248,839	247,707	247,707
Therms >3000	491,940	489,701	489,701
<b>Total Annual Sales Volumes (Therms)</b>	<b>777,797</b>	<b>774,259</b>	<b>774,259</b>
<b>Service Classification 3 (1 to 4 Housing Units)</b>			
Annual Bills	2,842,736	2,842,736	2,842,736
Therms 0-3	8,544,060	8,544,060	8,544,060
Therms 3-90	155,663,726	155,663,726	155,708,999
Therms 90-3000	160,478,502	160,478,502	160,564,773
Therms >3000	1,217,247	1,217,247	1,217,901
<b>Total Annual Sales Volumes (Therms)</b>	<b>325,903,535</b>	<b>325,903,535</b>	<b>326,035,733</b>
<b>Service Classification 3 (1 to 4 Housing Units) - Low Income</b>			
Annual Bills	79,703	79,703	79,703
Therms 0-3	239,399	239,399	239,399
Therms 3-90	4,060,580	4,060,580	4,061,916
Therms 90-3000	3,076,602	3,076,602	3,078,256
Therms >3000	17,616	17,616	17,626
<b>Total Annual Sales Volumes (Therms)</b>	<b>7,394,197</b>	<b>7,394,197</b>	<b>7,397,197</b>
<b>Service Classification 3 (1 to 4 Housing Units) - Air Conditioning</b>			
Therms 0-1200	-	-	-
Therms >1200	-	-	-
<b>Total Annual Sales Volumes (Therms)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Service Classification 3 (More than 4 Housing Units)</b>			
Annual Bills	171,993	171,993	171,993
Therms 0-3	503,744	503,744	503,744
Therms 3-90	13,549,555	13,549,555	13,549,555
Therms 90-3000	126,867,632	126,867,632	126,915,882
Therms >3000	49,370,851	49,370,851	49,397,392
<b>Total Annual Sales Volumes (Therms)</b>	<b>190,291,782</b>	<b>190,291,782</b>	<b>190,366,573</b>
<b>Service Classification 3 (More than 4 Housing Units) - Low Income</b>			
Annual Bills	88	88	88
Therms 0-3	265	265	265
Therms 3-90	6,493	6,493	6,493
Therms 90-3000	20,415	20,415	20,426
Therms >3000	-	-	-
<b>Total Annual Sales Volumes (Therms)</b>	<b>27,173</b>	<b>27,173</b>	<b>27,184</b>
<b>Service Classification 3 (More than 4 Housing Units) - Air Conditioning</b>			
Therms 0-1200	24,279	24,279	24,279
Therms >1200	89,034	89,034	89,034
<b>Total Annual Sales Volumes (Therms)</b>	<b>113,313</b>	<b>113,313</b>	<b>113,313</b>
<b>Service Classification 13</b>			
Annual Bills	5,851	5,851	5,851
Therms 0-3	8,901	8,901	8,901
Therms 3-1200	409,897	409,897	409,897
Therms >1200	311,202	311,202	311,202
<b>Total Annual Sales Volumes (Therms)</b>	<b>730,000</b>	<b>730,000</b>	<b>730,000</b>
<b>Service Classification 2 - Commercial Distributed Generation</b>			
<b>Total Annual Sales Volumes (Therms)</b>	<b>998,499</b>	<b>998,499</b>	<b>998,499</b>
<b>Service Classification 14</b>			
<b>Total Annual Sales Volumes (Therms)</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>
<b>Summary of Sales Volumes</b>			
Service Classification 1 Sales Volumes (Therms)	48,090,000	47,680,000	47,680,000
Service Classification 2 Non-Heating Sales Volumes (Therms)	208,260,000	207,330,000	207,330,000
Service Classification 2 Heating Sales Volumes (Therms)	295,100,000	295,100,000	296,540,000
Service Classification 3 Sales Volumes (Therms)	523,730,000	523,730,000	523,940,000
Service Classification 13 Sales Volumes (Therms)	730,000	730,000	730,000
Service Classification 14 Sales Volumes (Therms)	120,000	120,000	120,000
<b>Total Annual Sales Volumes (Therms)</b>	<b>1,076,030,000</b>	<b>1,074,690,000</b>	<b>1,076,340,000</b>